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| Austria | Sch30 | Iran | Rls210 | Pakistan | Rs35 |
| Bahrain | Din0.900 | Israel | Shk4.00 | Philippines | Pes40 |
| Belgium | BFr60 | Italy | L2200 | Poland | Zl 11,000 |
| Cyprus | C£1.00 | Jordan | JD1.20 | Portugal | Es165 |
| Denmark | DKr13 | Korea | Won 2000 | Qatar | QR10.00 |
| Egypt | E£3.50 | Kuwait | Fils.500 | S.Arabia | SR8.00 |
| Finland | FM8.50 | Lebanon | L£1,000 | Singapore | S$4.10 |
| France | FFr7.50 | Lux | LFr60 | Spain | Pta175 |
| Germany | DM3.00 | Malaysia | M$4.25 | Sweden | SKr13 |
| Greece | Dr250 | Morocco | MDh10 | Switz | SFr2.70 |
| Hungary | Ft120 | Neth | Fl 3.50 | Thailand | Bht50 |
| Iceland | IKr180 | Nigeria | Naira15 | Tunisia | Din0.800 |
| India | Rs20 | Norway | NKr13.00 | Turkey | L3000 |
| Indonesia | Rp3100 | Oman | OR1.20 | UAE | Dh8.00 |

EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

FT No. 31,382




Monday February 18 1991

D 8523A

**SOVIET UNION**

**Through the looking glass**

Page 13

## World News

## Medellín explosion kills 22, injures 140

*At least 22 people were killed* and 140 injured when a car bomb exploded alongside a bull ring in Medellín, the centre of Colombia's cocaine trade.

Terrorists working for drug traffickers later claimed responsibility for the attack. Page 4

### Sanctions to stay

Nine Commonwealth foreign ministers decided to maintain all trade, financial and sporting sanctions against South Africa pending more concrete steps towards the abolition of apartheid. Page 4

### US-Israeli rift

Israel sought to play down the significance of an unprecedented protest by President Bush over a press interview given by Zalman Shoval, the Israeli ambassador in Washington, which criticised US policy towards Israel. Page 14

### Mrs Ozal to run

Mrs Semra Ozal, wife of the Turkish president, formally announced her bid to head the Istanbul branch of the ruling Motherland party, in a move guaranteed to cause a political *furore*. Page 4

### Mont Blanc deaths

A block of ice about 50 meters wide slid down the Italian side of Mont Blanc, killing at least six people. Police said a further 10 were still missing.

### Cape Verde poll

Cape Verde completed its transition from one-party to multi-party system with a presidential election widely expected to end the PAICV party's 15-year rule.

### Economy in danger

Czech President Vaclav Havel criticised his parliament for delaying economic legislation and warned that Czechoslovakia *faced economic collapse* unless wrangles over privatisation were resolved.

### Romania warning

The Romanian government told railwaymen they could be dismissed or prosecuted if they continued an eight-day-*old strike which is crippling* the country.

### UK poll options

The UK Government brought forward planning of future legislation to leave open for as long as possible the options of calling a general election. Page 14; *Caution in the face* of challenges, Page 12

### Seven-year limit

President Corazon Aquino, in her first statement on the future of six US military bases, said Washington could keep the bases for seven years, but *only if it was willing to meet* Manila's price.

### Afghan ambush

Guerrillas fighting the Soviet-backed government in Afghanistan ambushed a supply convoy in the northern province of Samangan, killing 14 people and burning four military vehicles.

### US embassy attack

A US marine was hurt in a late-night rocket attack on the residence of US embassy security staff in Santiago, Chile. No one claimed responsibility, police said.

### Hunger strike threat

Students in Tirana, Albania's capital, will start a hunger strike today unless the communist authorities drop the name of late Stalinist leader Enver Hoxha from the title of their university.

### Captives released

Three French aid workers held captive in southern Sudan by the rebel Sudan People's Liberation Army (SPLA) have been released and are on their way back to France.

## Business Summary

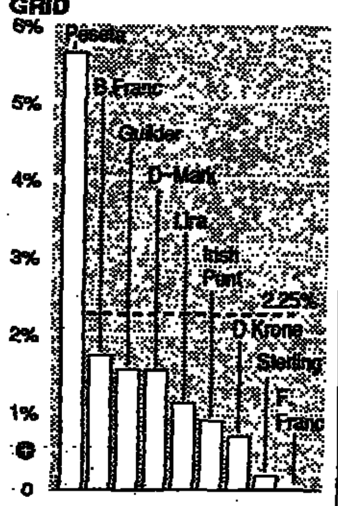
## South Korea announces 1990 deficit of $2.1bn

SOUTH Korea's current account, which has consistently recorded large surpluses since the mid-1980s, fell into abrupt *deficit last year, according* to figures announced by the Bank of Korea.

The central bank reported a deficit of $2.1bn in 1990, *roughly in line with a forecast* last November, compared with a surplus of $5.1bn in 1989. Page 14

*EUROPEAN Monetary System:* Sterling came off the bottom of the exchange rate mechanism in spite of a cut of ½ percentage point to 13¾ per cent in UK base interest rates. Wednesday's signal from the Bank of England to cut rates followed a small reduction in *the Bank of Spain's* money market intervention rate, the main instrument of Spanish credit policy. It was assumed that the two moves were co-ordinated. The peseta remained firm at the top of the ERM, while the pound was replaced by the French franc as the *weakest member. Currencies,* Page 27

**EMS February 15, 1991**




*The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.*

KUWAIT: four members of the Kuwait Investment Authority's management board, including Mr Fahad al-Rashed, managing director, have been replaced. Page 3

ITALY'S Fiat group plans to equip its entire passenger car range from the beginning of next year with exhaust emis*sion control equipment* designed to satisfy European Community standards. Page 4

*ARAB BANKING Corporation* of Bahrain has received the Bank of England's permission to incorporate a new European arm in London. Page 15

HOESCH, German steel and engineering group, is to seek a new chief executive from outside the company after its supervisory board failed to agree on a replacement for Detlev Rohwedder. Page 16

CUKUROVA, Turkish industrial conglomerate bidding British & Commonwealth Merchant Bank, has encountered problems financing its deal to buy the subsidiary of the collapsed British and Commonwealth group. Page 16

BRITAIN: sales volumes in UK stores have dropped on an annual basis for the first time since the Confederation of British Industry and the Financial Times began their distributive trades survey in 1983. Page 14

# Allied ground offensive likely within days

By Peter Riddell, US Editor, in Washington

Baker: "No ceasefire"

A FULL-SCALE ground offensive by US and allied troops to force Iraq out of Kuwait is likely to begin shortly, possibly within a few days, unless there is an immediate start to a massive and rapid withdrawal.

Mr James Baker, US secretary of state, yesterday said there would be "no pausing, no ceasefire" amid increasing *signs both from Saudi Arabia* and Washington that military preparations for a ground campaign are complete. Iraq has to leave Kuwait," he said.

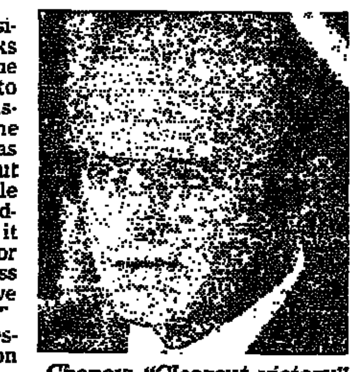
Mr Brent Scowcroft, the president's national security adviser, said there was now "a certain tempo to military operations which is important to maintain to save allied lives. We're not going to break that tempo unless it is clear that he (Saddam Hussein) is complying with the United Nations Security Council directive." He said this must mean total and rapid withdrawal without conditions.

*Senior US officials also* opened the possibility that Iraq might have to leave behind in Kuwait some of its military equipment by insisting that any withdrawal must be "fast."

Mr Baker also clarified President George Bush's remarks last Friday when he urged the Iraqi military and people to oust President Saddam Hussein. Mr Baker said the removal of the Iraqi leader was not a war aim or goal, but would be "a very desirable result." He said that if Mr Saddam remained in power it would make a stable future for *the Middle East "much* less likely and would tend to move things in the other direction."

The uncompromising message from Washington came on

Continued on Page 14



Cheney: "Clearcut victory"

# Soviets to press Iraq on pull-out

By Quentin Peel in Moscow and Roger Matthews in London

THE Soviet Union will today attempt to persuade Iraq to drop its conditions for withdrawal from Kuwait, as Presi*dent Mikhail Gorbachev's* peace initiative in the Gulf war is given fresh momentum with the arrival in Moscow of Mr Tariq Aziz, Iraq's foreign minister.

The Soviet leader will be seeking urgently to clarify the offer made by Iraq on Friday to *accept United Nations Resolution* 660 and withdraw from Kuwait, before the allied forces in the Gulf launch their long-awaited ground offensive.

Mr Aziz was due to arrive in Moscow last night via Tehran after crossing the border from Iraq by road. He was flying to *the Soviet Union in an Aeroflot* jet following discussions in Tehran with Mr Ali Akbar Velayati, the Iranian foreign minister.

Before leaving Tehran on a special Aeroflot flight, Mr Aziz told reporters: "If the United States rejects our offer and *overlooks the international* demands we will have no alternative but to continue our struggle."

In spite of the Soviet Union's obvious desire to negotiate a peace deal, the Iraqi minister is still likely to face a tough line from Mr Gorbachev on the *absolute* need to obey *all* the United Nations resolutions – and therefore to withdraw from Kuwait unconditionally.

This was stressed over the weekend both by Soviet officials, and by three European Community foreign ministers who met Mr Gorbachev on Saturday.

Mr Vitaly Churkin, the Soviet Foreign Ministry spokesman, poured cold water on Saturday on the initial Soviet enthusiasm for the Iraqi initiative, because of the string of apparent conditions attached to it.

"The chief thing, in our view, consists of the fact that the Iraqi leadership is speaking of withdrawal from Kuwait," he said.

"*Unfortunately*, this principled provision is linked to many conditions which can render it meaningless." Mr Abdul Amir al-Anbari, Iraq's ambassador to the UN, emphasised yesterday that Baghdad had not put forward conditions but rather "legitimate issues".

*Mr Churkin* also repeated the Soviet hope that the Iraqi move could prove to be "a start towards peace, not the continuation of fruitless propaganda campaigns while the bloodshed continues.

"Soviet diplomacy sees its main task in bringing about an early end *to* the war, putting an end to destruction and human suffering. We hope that the forthcoming conversations in Moscow with the envoy of the Iraqi president will make it possible to advance towards the goal which remains unchanged – the fulfilment of all the appropriate resolutions of the UN Security Council," he said.

Mr Jacques Poos, the Luxembourg foreign minister and current chairman of the EC Coun*cil of Ministers, said he and his* colleagues from Italy and the Netherlands "at no time in our meetings... had the feeling that the Soviet Union was sliding away from its support for the anti-Iraq alliance.

"There are no cracks in the coalition ranks," he said, *adding that Mr Gorbachev* would be demanding Iraq's unconditional withdrawal from Kuwait in his talks with Mr Aziz.

There have been growing signs of conservative pressure on Mr Gorbachev inside the Soviet Union to dilute his support for the allied campaign in the Gulf, and fears expressed that the Soviet Union looked *likely* to lose all its influence in the region. So far, however, that has simply refuelled *Soviet efforts to promote* a peaceful settlement, while steadily backing the joint UN position.

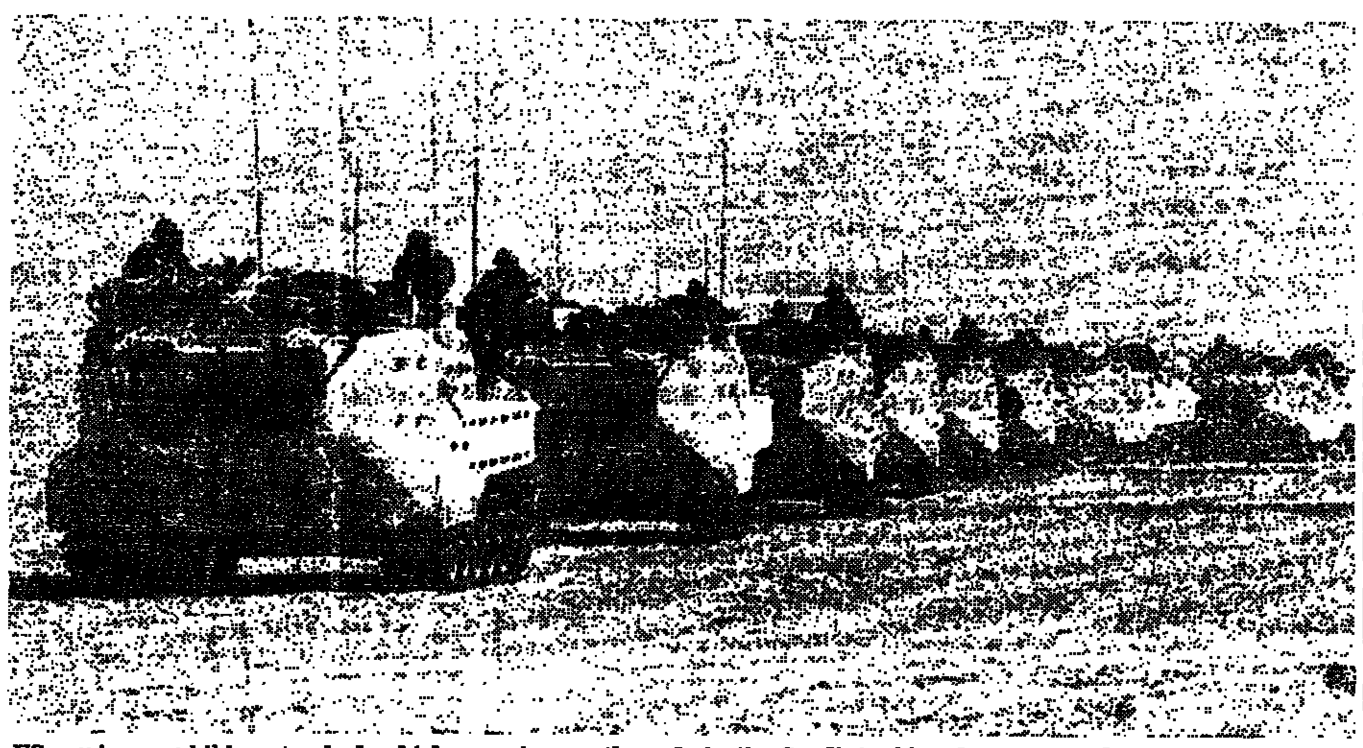
Today's talks in Moscow will be anxiously awaited throughout the Middle East.

Mr Taher al-Masri, Jordan's foreign minister, said that the apparent Iraqi *flexibility* had come as a result of contacts with Moscow. He forecast an intensified drive to find a peace formula and was pleased by Iraq's assertion that it was not imposing conditions but raising legitimate issues.

But Arab members of the US-led coalition in the Gulf were much less optimistic. Mr Esmat Abdel-Meguid, Egypt's foreign minister, said Iraq's conditions contradicted UN Resolution 660, while Sheikh *Sabah al-Ahmed al-Sabah*, Kuwait's foreign minister, predicted that the Moscow talks would fail.

"There will not be anything positive from the Iraqi side unless there is a change in the mentality of its leadership", he said.

*Gulf reports, Pages 2 and 3:* Editorial comment, Page 12



US marine amphibious tracked vehicles moving northwards in the Saudi Arabian desert yesterday

# Georgian president urges west to drop support for Gorbachev

By John Lloyd in Tbilisi

THE president of the Soviet *republic of Georgia*, which has followed the Baltic states in seeking independence from Moscow, has appealed to west*ern leaders to end support for* Soviet President Mikhail Gorbachev and to open links with the governments of the rebellious republics.

Mr Zviad Ghamsakhurdia said: "The west must give concrete help to republics and not to the centre [Moscow] because *it* uses all aid to crush us. It must understand that this is the end of the imperial power.

"Economic and political assistance must be targeted where *it can help a free* political movement and a free economy."

Mr Ghamsakhurdia said the declaration of presidential rule over Georgia, and an "invasion" of Soviet forces, was probable. "However, Gorbachev now hesitates. If he wins against the Baltic states, he will turn his attention to us.

"The west could assist us by giving us its support, and then he would not dare."

The nationalist government of the 5m-strong Transcaucasian state which ousted the Communist administration last year, has enrolled 2,000 recruits for a National Guard which will have a final strength of between 12,000 and 14,000 men.

Mr Dilari Habuliani, Georgian interior minister, admitted he had tried but *failed* to secure supplies of machine guns from a weapons plant in *Tula*, in Russia, in exchange for food.

However, he suggested he could buy weapons from international arms suppliers.

The republic is largely cut *off politically from Moscow*, and has the republic's KGB under its control. Mr Ghamsakhurdia said he no longer talked to Mr Gorbachev and that he had "forbidden" Mr Rafik Nishanov, chairman of the Council of Nationalities in the Supreme Soviet who has attempted to play a mediating role, from making further initiatives. "I told him he is intervening in the affairs of a sovereign state."

*Neither Mr Ghamsakhurdia* nor any leading Georgian politician saw the possibility of compromise or negotiations with the leaders of South Ossetia, a region within Georgia which last year declared itself

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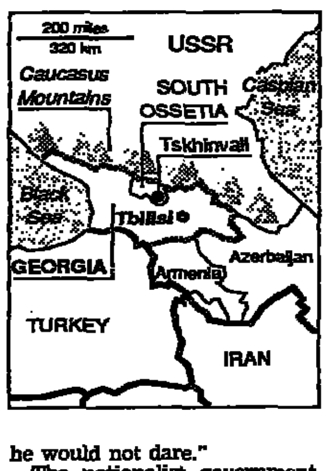



# Orders for jets will fall sharply says Airbus

By Paul Betts and Charles Leadbeater in London

ORDERS for commercial jet airliners will fall sharply from the record levels of more than 1,000 aircraft during each of the past three years to an annual total of only between 100 and 200 aircraft during the next few years, according to the latest forecasts of Airbus Industrie.

Mr Adam Brown, planning director of the European aircraft consortium, said the *decline in the level of* new orders would occur irrespective of the length and depth of the current economic recession.

"Our analysis suggests that whether the present recession is over soon, with oil prices and interest and inflation *rates returning to historical* levels, or whether it turns into a more severe and long drawn-out affair, worldwide orders for commercial jets will tumble from their recent record levels," he said in a paper to the American Institute of Aeronautics in Los Angeles.

*The steep decline in new* orders reflects the huge order backlog built up during the last few years by the world's three leading manufacturers – Boeing, Airbus and McDonnell Douglas. The number of commercial jets on order totalled 3,746 aircraft at *the end of last year*.

The commercial aircraft business has also traditionally been a late cycle industry feeling economic downturns and recoveries several months after other sectors.

But Mr Brown said annual deliveries by the three aircraft *suppliers were expected to* remain stable at around 600-700 jets a year during the next 10 years.

"This is not perhaps as high as all of the manufacturers' most optimistic plans, but it will provide a volume of business adequate to support prof*itable continuing participation* by all three major suppliers," he said.

Airbus also expects concentration to increase in the airline industry. "Our forecast shows that worldwide 12 airlines or airline entities, each of which will need delivery of *over 200 aircraft during* the next 20 years, will account for 54 per cent of all deliveries during this period," Mr Brown said.

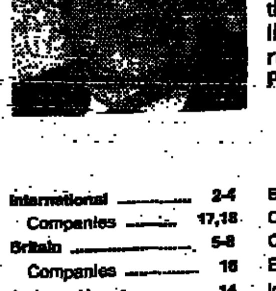
Despite the Gulf crisis and the severe airline industry slump, Airbus does not expect any significant softening of its *current order book*.

Continued on Page 14



## CONTENTS

### THE MONDAY INTERVIEW

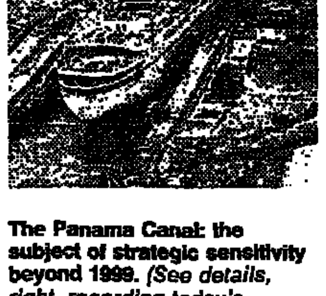


Sir John Quinton, chairman of Barclays Bank, has been a clearing banker for 38 years and has never seen things as bad as they are now. He sees little prospect for early relief

Page 32



## FT SURVEYS AHEAD



**The Panama Canal: the subject of strategic sensitivity beyond 1999.** *(See details, right, regarding today's survey.)*

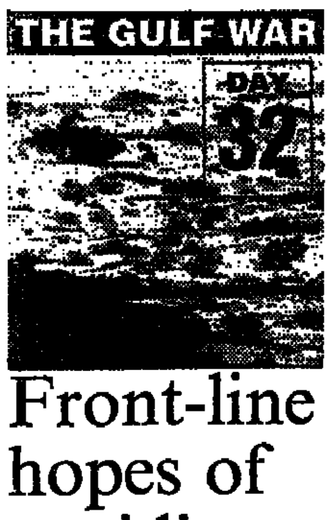
### TODAY

**Panama:** Full operational control of the strategic Panama Canal is due to pass into Panamanian hands in 1999. This will test the country's relationship with the US, which overthrew the corrupt regime of General Noriega 14. **Pages 19-21**

### OTHER SURVEYS AHEAD

Friday, March 1: Business Books.
Wednesday, March 6: Iceland.
Thursday, March 7: Greece.
Friday March 8: International Property.
Monday March 11: European Information Technology.
*Monday March 11: Corporate* Contracted Services.
Tuesday March 12: Nigeria.

THE GULF WAR




# Front-line hopes of avoiding land war

By Tony Walker in Dhahran

ALLIED front-line soldiers reacted with hope and scepticism at the weekend to prospects of a peaceful end of the Gulf crisis, as preparations for a massive land, sea and air onslaught against Iraqi positions in and around Kuwait continued apace.

Commanders of the US-dominated coalition said the most intense phase of "battlefield preparation" had begun in the past several days for an imminent land offensive. For the moment, though, eyes will be on Moscow and the imminent meeting of Iraqi foreign minister Tariq Aziz and President Mikhail Gorbachev.

Allied troops, brought near a fever pitch of anticipation for a land offensive by their commanders, were having difficulty digesting the possibility that they might be spared the terror of a pitched land battle.

Captain Don Wogaman of the US Second Marine Division summed up the feelings of many: "I'm afraid to believe it, I'm afraid to set myself up for a big let-down. But Saddam is a pragmatist who all along has been looking for a way out. He doesn't want to die. He wants to find another way to be kingpin in the Arab world."

Corporal Robert Brewer, of a US marine anti-tank unit, said everybody was "ready to go home".

Scepticism came from Staff Sergeant Sylvester Prince of the US 3rd Armoured Division, who said he had expected to spend a lot more time in the desert. "I remember the negotiations to end the Vietnam war," he said. "It was a real long process. Both sides wanting peace is sometimes not enough."

Many soldiers expressed fear that, even with Iraq withdrawals, the threat from Saddam Hussein would linger. "Now he can say he stood up to the Americans," said civilian Dan Peterson, the armoured division's historian. "He's almost a martyr."

Soldiers at the front were contending with the double distraction at the weekend of the possibility that a land battle might not be necessary after all, and also of clearly visible and audible signs of an increased bombardment of Iraqi positions across the Kuwait frontier.

US marines saw the bombardment, perhaps the heaviest so far, on forward Iraqi positions.

Meanwhile, out in the Gulf itself, a marine amphibious task force was moving into place. Some 31 vessels and 30,000 sailors and marines were engaged.

Marines of Nos. 4 and 5 Marine Expeditionary Brigades are expected to be among the first to launch a ground assault against Iraqi troops in Kuwait. The marines have been trained to deal with an enemy in an urban environment such as Kuwait City.

"This is one of the largest task forces ever assembled. It is the largest since the Inchon landing in Korea [nearly 40 years ago]", said Capt Mike Falkey of the landing ship USS Portland. "The amphibious task force is the only means the president has to project sea power onto land. We can make a political difference."

## Two US soldiers killed by missile from one of their own helicopters

# Armies exchange fire as Iraqis cross border

By Victor Mallet in Riyadh

US AND Iraqi troops exchanged fire in seven separate engagements yesterday morning along Saudi Arabia's northern border with Kuwait and Iraq, and the US said two of its soldiers were killed and six wounded by one of its own Apache helicopters.

Brig-Gen Richard Neal, the US spokesman, said Iraqi forces crossed the frontier in what seems to have been a series of aggressive probes and were confronted with US tanks, TOW anti-tank missiles and helicopters.

The Iraqis lost three tanks and two armoured personnel carriers, and an Iraqi multiple rocket-launcher and two bunkers were destroyed. Twenty Iraqi prisoners were rounded up by Apache helicopters and sent south to allied lines, in the first operation of its kind.

The Americans died before dawn when a Bradley fighting vehicle and an M-113 armoured vehicle containing ground surveillance radar were hit, apparently by one or more Hellfire missiles from an Apache. "The Apache obviously made a mistake," said one US officer.

It was the second serious incident involving US casualties caused by "friendly fire". Seven US Marines were killed by a Maverick missile in a previous Iraqi attack over the border, and almost all US ground casualties have so far been caused by American weapons.

"There will probably be other friendly casualties," Brig-Gen Neal conceded. "We have a solid programme of trying to avoid friendly casualties. We reviewed it as a result of the Marine incident."

He expressed hope that in a big allied offensive – as opposed to a surprise Iraqi probe – there would not be "any problem separating the good guy from the bad guy".

US officers said the Americans had started all seven engagements to intercept Iraqi probes. "We're being very aggressive in our operations along the border," said Brig-Gen Neal. "I think he [the Iraqi enemy] feels he's blind as to the disposition of US forces."

As controversy continued over Iraqi civilian casualties in the allied air bombardment of Iraq and Kuwait, one US officer said he suspected the Iraqis had removed a mosque dome to make it look as though it had been attacked.

British forces, responding to Iraqi allegations that civilians were killed in a bombing raid on the Euphrates town of Fallujah on February 14, showed a video picturing a bomb going astray and hitting a civilian area in an attack on a bridge at Fallujah – although the raid was on February 13 and no British aircraft was lost as claimed by Iraq.

The US has so far declined to show videos of attacks which went awry, but Group Capt Niall Irving, the British spokesman, gave a flawlessly diplomatic performance as he explained how one laser-guided bomb had veered off course during the attack, possibly because its guidance fins malfunctioned.

Tornado bombers had attacked the bridge in the middle, rather than at the ends, which are the preferred targets, and had flown across it rather than along it specifically to lower the risk of civilian deaths, he said. Bombs could be seen exploding on the bridge, but smoke from one which went astray was visible in the town 800 yards to the right. It was not known if there were any casualties.

## The risk of death by friendly fire in the fog of war

**The incidents in which soldiers have been killed by "friendly fire" in the Gulf illustrate the difficulties of co-ordinating air strikes and artillery during an intense ground battle – difficulties liable to increase when an allied ground offensive gets under way, writes Andrew Slade.**

**The senior US Air Force officer in the Gulf, Lt Gen Charles Horner, says he has 2,000 ground-strike co-ordinators with ground troops. But he adds: "Any time you put people with live weapons, there's always the possibility of mishap."**

**During the fighting at Khafji, US and Iraqi forces were separated by only 25 yards, according to US soldiers involved. The US troops called up artillery fire virtually on top of their own positions in a bid to stem the Iraqi attack.**

**In the incident at Khafji, the A-10 pilot would have had seconds, between selecting the "target" and firing the missile, to decide whether the vehicle was Iraqi or American. He was probably not close enough to make a visual check; even if he had, he could have mistaken the vehicle he hit for an Iraqi BTR troop carrier.**

**US troops are trained to distinguish friendly and enemy tanks and vehicles – but confusion is inevitable in the general "fog of war".**

**There were at least 100 similar incidents in Vietnam – the commander of US forces in the Gulf, Gen Norman Schwarzkopf, was himself bombed by B-52s in Vietnam – while the Pentagon admits that at least two of the 23 US troops killed during the December 1989 invasion of Panama were killed by their own side.**

Supply run: a Sudanese refugee carries water through the Azraq camp in Jordan, where he and several hundred of his countrymen are awaiting repatriation after escaping areas affected by the war

# Allies move flotilla of minesweepers into the northern Gulf

By David White, Defence Correspondent

A FLOTILLA of mine-clearing vessels has moved into the northern part of the Gulf, in a further sign of allied preparations for an offensive to take Kuwait from Iraq's occupying forces.

Clearing Iraqi mines from the waters off Kuwait would be a necessary precursor to any naval participation in the attack, whether a landing by the US marines gathered in the area or supporting naval gunfire.

The five British Hunt-class minehunters in the Gulf sailed north from Bahrain last week, according to defence officials in London. The mine countermeasures force also includes a British command ship, the US helicopter-carrying assault ship Tripoli, with Sea Stallion and Sea Dragon helicopters, and four US minesweepers.

The vessels rely for protection on fighters from US aircraft-carriers and on Royal Navy air defence destroyers with upgraded Sea Dart missiles capable of countering missile attacks.

Belgium also has two mine-countering vessels in the Gulf, but these have remained in the south.

Preparation for an amphibious landing would not require freeing the whole area of mines, but approach channels would need to be kept clear.

Officials said there were indications that Iraq had laid mines in the approaches to Kuwait and off the beaches, in addition to mines left over from the 1980-88 Iran-Iraq war which had still not been cleared.

A number of mines has been sighted on the surface in recent weeks, floating south and out into the Gulf.

Iraq is thought to have laid several different kinds of mine. These include buoyant mines, moored to a sinker on the sea floor and usually triggered by direct contact. It is also believed to have more sophisticated seabed mines sensitive to a ship's magnetic signature – the pressure of its bow wave or its engine noise.

The minehunters search with sonar and dispose of their quarry by using remote-control vehicles to set explosive charges.

Mine-countering vessels are to remain active in the region after Iraqi forces have been removed from Kuwait, so as to ensure the immediate provision of supplies and the longer-term safety of shipping in the northern Gulf.

# Iraq faking damage, Pentagon alleges

By Peter Riddell, US Editor, in Washington

THE Pentagon has accused the Iraqis of deliberately damaging civilian buildings to look as if they had been hit by allied aircraft.

Rear Admiral Mike McConnell, head of intelligence for the US joint chiefs of staff, said the US had evidence the Iraqis were "faking" some of the bomb damage. He claimed that the Iraqis had damaged one building and shown it to western reporters – pictures of which subsequently appeared on western television – to back up Baghdad's claim that US and allied attacks were aiming at civilian targets.

The admiral said: "We are absolutely certain that that damage was not inflicted by coalition forces." He declined to specify the building.

Later, a US official was reported in the Washington Post newspaper as saying that a mosque near Basra might have been dismantled by the Iraqis. Satellite photographs of the mosque showed the dome missing but window casings intact, an absence of debris and walls detached but not buckled, as they would have been from bombing.

Another official said the Iraqis had blown up a building to make it appear that it had been done from the air and invited reporters on a tour.

US and allied officials continued to charge that the Iraqi leadership had deliberately mixed military command headquarters with civilian and residential areas, such as hospitals and schools.

Mr Dick Cheney, the US defence secretary, said the bunker in Baghdad bombed last week with heavy losses might have been reserved for families of the Iraqi élite. The shelters in Baghdad could hold perhaps 1 per cent of the city's 4m residents: "It's not the kind of thing that you ordinarily would have passed out to the average man on the street."

# 'Date for ground attack not set yet'

By Ian Davidson in Paris

THE Gulf war allies were agreed on a general time-frame for the launch of a ground offensive against the Iraqi army but no date had been set, Mr Pierre Joxe, the French defence minister, said yesterday.

Earlier, Mr Roland Dumas, the foreign minister, had indicated that a date had been set for the start of a land war.

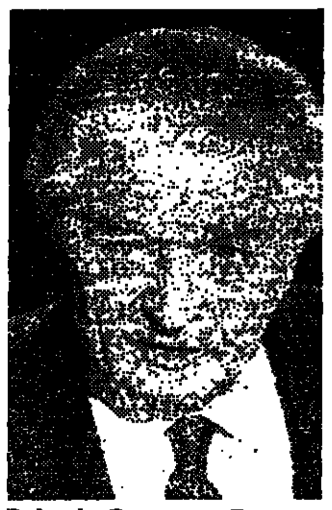
Mr Dumas implied that a land offensive could not be avoided unless Iraq embarked on an immediate and massive withdrawal from Kuwait.

"We are on the eve or the pre-eve" of this offensive, Mr Dumas said, although he did not specify a date.

Mr Joxe said it was "easy to understand why this kind of information on a date for a ground offensive cannot be published, and will only be set in relation to certain strategic considerations, both military and political ones."

Mr Dumas was confident that the UN coalition's determination to press ahead with the ground offensive would not be deflected by the conditional proposals advanced by Iraq last Friday, and he claimed that this point of view was shared by Moscow.

He said Iraq's conditional offer to withdraw from Kuwait



Roland Dumas: "Eve or pre-eve" of the offensive

"can have no meaning for the coalition unless it is followed by immediate effects on the ground".

"If Mr Saddam Hussein proceeds tomorrow to a massive, immediate and unconditional withdrawal, we should start to take it seriously," he said. "Otherwise, we should just be dealing with diplomatic gesticulation."

The minister was confident that this point of view was shared in Moscow. He said the Soviet leaders had told emissaries from the European Community (the foreign ministers of Italy, Luxembourg and Holland) that the conditions put forward by the Iraqi regime voided their proposals of all interest.

He said he would be surprised if President Mikhail Gorbachev should today change the position adopted by the Soviet Union in the Security Council since the start of the Gulf crisis, and he did not expect that the situation would be changed by the visit to Moscow of Mr Tariq Aziz, the Iraqi foreign minister.

He said this visit should be watched "with the greatest interest", since the object should be to draw Iraq towards the position of the UN Security Council, not to draw the Soviet Union away from the position of the Security Council.

Mr Dumas reiterated the French government's support for an international peace conference after the war was over. It was necessary to pay serious attention, as soon as possible, to the creation of a Palestinian state, he said; and he indicated that the French government continued to regard Mr Yassir Arafat as the leader of the Palestinian people, regardless of his support for Mr Saddam Hussein.

"In the occupied territories," he said, "the PLO remains popular and representative, and he is the PLO until such time as some other representative figure comes along."

At the same time, he said, the international conference should provide security for Israel.

NEWS IN BRIEF

## India drops US refuelling facilities

By K.K. Sharma in New Delhi

THE INDIAN government has stopped refuelling for US military aircraft on their way to the Gulf after a threat by Mr Rajiv Gandhi's Congress party at the weekend to withdraw support for the minority government led by Mr Chandra Shekhar.

Mr Shekhar, who announced the decision to end refuelling while touring Bihar state, has been under severe attack for permitting use of the facilities. He said last week he would withdraw them, if public opinion favoured this.

Mr Shekhar's government, backed by 56 members of his party in the 522-member Lok Sabha (lower house of Parliament), is propped up by Congress support. Parliament's three-month budget session begins on February 21.

## Pakistan to hold talks with Iran

Pakistan yesterday said it was sending Mr Sahabzada Yaqub Khan, its foreign minister, to Iran for talks on the Gulf war with Dr Ali Akbar Velayati, his counterpart, Farhan Bokhari writes from Islamabad.

This is a further sign of a continuing initiative to take a higher profile in Gulf war-related diplomatic efforts.

Officials and diplomats say privately that Mr Nawaz Sharif's government has been coming under fire from Moslem nationalists.

## Kaufman calm over Moscow

Mr Gerald Kaufman, the shadow British foreign secretary, said yesterday he believed the Soviet Union would not alter its commitment to the UN resolutions, in the talks to be held with Mr Tariq Aziz, the Iraqi foreign minister, in Moscow, writes Alison Smith.

"I trust them completely," he told BBC radio. "The Soviet Union has said again and again and again that it fully supports the UN resolutions, every one of which the Soviet Union voted for."

## Algerian airline cuts flights

Air Algerie, Algeria's national airline, has cancelled almost 30 per cent of its scheduled international flights in February because of declining traffic mainly due to the Gulf crisis, officials said yesterday, Reuter reports from Algiers.

Higher fuel and insurance costs and growing visa restrictions on Algerians abroad also helped cut Air Algerie's international passengers in January by one-third over 1990.

## Oil fires bring black rain

Black rain caused by blazing oil installations in Iraq fell over western Iran yesterday, the Iranian news agency reported, Reuter reports from Nicosia.

It said the rain, which polluted "environmental, water and agricultural resources" in Iranian border areas, was caused by smoke from burning installations in eastern Iraq.

## Medical supplies get through

Trucks carrying 50 tonnes of emergency medical supplies for the treatment of children and mothers arrived safely in Baghdad on Saturday, the United Nations announced, Reuter reports.

Iraqi health and Red Crescent officials met the convoy at the Iranian border town of Khosravi following requests from the UN groups that allied forces avoid dropping any bombs on its route.

# Haggling over the price of withdrawal from Kuwait

## The process of bargaining on Iraq's offer to withdraw would be recognised in any bazaar, writes Roger Matthews

A WESTERNER venturing into a Middle Eastern bazaar needs to remember two things. First, that the seller may initially demand a ludicrous price, if only because ludicrous prices have been paid in the past and Arab shopkeepers generally have fairly low opinions of western travellers. The fact that the shopkeeper may be suffering desperate cash-flow problems and be on the brink of going out of business is not relevant at this stage.

Second, it is vital for the would-be purchaser to indicate only the most superficial interest in the particular item which he or she would most like to acquire, otherwise the price will remain high and the seller stubborn.

If there are other people watching, the process becomes much more complex and the shopkeeper will probably resort to registering any concessions in price on a calculator which is shielded from the view of all but the would-be purchaser.

In many Arab eyes, Presidents Saddam Hussein and George Bush acted through the initial part of this ritual on Friday. Iraq has offered to give the US what it wants, withdrawal from Kuwait, but has attached a price tag which is plainly absurd. By implication, again in Arab eyes, Mr Saddam can be expected to drop the price further because he appears to have made the first, decisive move of indicating that he is a willing seller. Equally, of course, it could be designed to test the intentions of the other party.

Crucially for Saddam Hussein, Mr Bush has not yet indicated that he is a willing buyer. His initial "cruel hoax" reaction on Friday was one which would have been appreciated in the souks (bazaars). It is the correct answer to the man who may be offering to sell. More important, it also raises the possibility that the purchaser may think he can get what he wants by other means, in the case of the Gulf war by the allies launching a ground offensive.

If there are further concessions to be made they are likely to come soon. Mr Abdul Amir al-Anbari, Iraq's ambassador to the UN, began the process at the weekend by suggesting that the price for withdrawal demanded by his president was not a condition, nor was linkage to other issues involved; it was simply a matter of defining what were "legitimate issues".

The Soviet Union, where Mr Tariq Aziz, the Iraqi foreign minister is next due to arrive, appears destined to play the role that the calculator does in the traditional shop bargaining session. Moscow will be the first place to register the shifts in Iraq's bargaining stance.

The Soviet Union still has a treaty of friendship and co-operation with Iraq, it has been the largest arms supplier to Baghdad, and in its present embattled domestic situation it could do with a foreign policy success. By providing Moscow first with the next signs of flexibility, Iraq will be enhancing the Soviet Union's Middle East role while seeking to detach it from the allied consensus.

A re-reading of the statement issued by Iraq's Revolution Command Council (RCC) on Friday underlines how easily these "legitimate issues" can be whittled down and conceded in so far as they are relevant to the end of hostilities. Four of the dozen or so demands made by the RCC refer to Iraq. Three of these – forgiveness of debt, foreign commitment to rebuild Iraq without charge and an obscure reference to recognition of Iraqi rights – were presumably only made in order to be conceded.

Saddam Hussein, of all people, will not want to get into the issues of war reparations, faced as he already has been by a demand for tens of billions of dollars from Iran and possibly a similar amount from a freed Kuwait. The fourth issue, the lifting of UN sanctions against Iraq, could conceivably be part of a peace deal.

Three demands refer to Israel, Palestine, the Golan Heights and southern Lebanon. The resolution of these issues, while acknowledged internationally as imperative, is not accepted by the US and its allies as part of the Gulf problem created by Iraq. Mr Saddam will get nowhere on the negotiating front by pursuing them.

What is left is a demand for democracy in Kuwait – a bit rich coming from such a source – and a ritual nod of hatred towards President Hafez al-Assad of Syria, insisting that he pulls out of Lebanon.

This, then, seems to isolate one Iraqi demand which might realistically be capable of negotiation as part of its commitment to withdraw from Kuwait: the lifting of UN sanctions. None of the rest looks immediately helpful in ending hostilities.

Perhaps this is because Iraq's most potent bargaining card does not appear in the RCC statement as a condition for ending the war. Instead it appears right at the end and is addressed to "the perfidious, the treacherous and their imperialist masters". They are told that the guarantee of Iraq's survival is its armed forces. Victory for the Iraqi forces, the world is assured, is as certain in the coming days as it had been in the past.

In other words, the real concession which Iraq can make to the US by withdrawing from Kuwait is to remove the prospect of the US casualties which otherwise will occur. It is not bargaining as understood in the souk: it is negotiating with one hand on a sledge-hammer.

And that is how it has been since August 2, when Iraq invaded. It has taken more than 29 weeks to arrive at the stage when Iraq's president realised that a deal might not be possible on his terms. Now that he seems to scent the necessity of a deal, it might be too late to get one.

Where the tradition of the souk collapses and fury erupts is when one side, or both, is suddenly faced with the realisation that it has been wasting its time and that there never was the chance of a deal. Whether the Gulf conflict has reached that stage should be known in the next few days.

The Financial Times (Europe) Ltd Published by the Financial Times (Europe) Ltd., Frankfurt Branch, (Guiollettstrasse 54, 6000 Frankfurt-am-Main 1: Telephone 069-75980; Fax 069-722677; Telex 416193 represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Richard Lambert, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1991.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: B. Hughes, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Richard Lambert. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Ostergade 44, DK-1100 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 935335.

## THE GULF WAR

# Four members of KIA replaced in bid for control

By David Owen

FOUR members of the Kuwait Investment Authority's management board, including Mr Fahad al-Rashed, managing director, have been replaced.

Their terms expired officially shortly after Iraq invaded Kuwait last August, but it was assumed they would stay in office for the duration of the war at least.

The move is believed to mark an attempt by finance minister Ali al-Khalifa al-Sabah to consolidate his control over the exiled organisation and to paper over the rift between the KIA and the Kuwait Investment Office, its London-based subsidiary.

It comes about a month after the resignation of 12 KIO executives in an unprecedented protest about the Office's management structure. The KIO manages about $30bn (£15.1bn) of the emirate's extensive foreign investments.

The inter-organisational dispute, which has rumbled since the KIA's creation in 1982, is emblematic of deep differences in the Kuwaiti power structure.

The KIO has traditionally been identified with the al-Sabahs, Kuwait's ruling family, in spite of the bulk of the assets it handles being kept in the Reserve Fund for Future Generations, which amounts to a lucrative state pension fund.

Its parent, the KIA, meanwhile, is loosely linked with prominent outsiders who want a more meritocratic approach to public appointments and clearer distinctions between the roles and interests of the state and the ruling family. Its principal role has been to keep the KIO under a tighter rein.

In recent years, the KIA had appeared to be gaining the upper hand, never more so than last February when it was decided to recall to Kuwait Mr Fouad Jaffar, long-serving KIO general manager.

But the Iraqi invasion tilted the power balance back in favour of the KIO. If much of Kuwait's wealth had not been entrusted to a relatively independent body based in the safe haven of the City of London, the emirate might have been effectively pauperised.

The new appointees are Mr Abdullah al-Gabandi of Kuwait Foreign Trading, Contracting & Investment Company (another KIA-controlled investment body), Mr Anwar Abdullah al-Nuri, Mr Badr Abdul Muhsin al-Mukhaizin and Mr Abdul Rasoul Yusef abu al-Hassan.

# Weizsaecker calls for end to arms exports

GERMAN President Richard von said on Sunday the world must end arms exports to sensitive areas if there was to be real peace after the Gulf War, Reuter reports from Bonn.

"If the talk of a new peace order after the Gulf War is to have any meaning, it will be only if we really succeed in finally putting an end to this outrage of arms exports," he said in a television interview.

Mr Weizsaecker said the entire world, East and West, had been involved in arming Iraq and asked: "What is the point of strengthening the United Nations and enabling it to enforce its political will if this happens in areas to which at the same time all participants from the United Nations have been delivering weapons?"

Mr Weizsaecker said it was particularly unbearable that some German companies may have been "merchants of death" who enabled Iraq to manufacture poison gas which it has threatened to use against Israel.

He said other countries were much larger arms exporters than Germany – the Soviet Union exported 30 times as much, the United States 10 times and France six.

"This is not a reason to exculpate ourselves but it is a pointer to the need for international co-operation," he said.

# French debate the future of conscription

By Ian Davidson in Paris

THE Gulf War and the practical complications hampering France's military contribution to the allied coalition have precipitated a new debate in France over the future of conscription.

The trigger for the debate has been President Mitterrand's decision not to post any conscripts to France's relatively modest force in the Gulf war zone, which has significantly constrained the mobilisation of its 10,500-man division in Saudi Arabia.

This created initial difficulties in assembling complete military units from an army which is 65 per cent composed of conscripts. It would probably cause greater difficulties in assembling replacement units for rotation, if the length of the war were to require it.

The fact that the French division in the Gulf is in practice a fully professional force has revived arguments that France should go over to an entirely volunteer defence force, like the US and the UK.

No-one expects, however, that the government would contemplate the abandonment of the principle of universal conscription. On the contrary, the most recent statements by Prime Minister Michel Rocard and other ministers suggest that compulsory national service is here to stay.

Nevertheless, it is clear that the exemption of conscripts from the Gulf War has proved a significant practical embarrassment; it has also raised political questions about the operational utility of national service.

As a result, the government has indicated that it intends to to revise the practical implementation of the conscription system and will in future make sharper distinctions between units with conscripts and those without.

Mr Gérard Renon, deputy Defence Minister, has recently said that the government would be reviewing the allocation of conscripts to army units. He indicated that, since the French army must be capable of fielding heavy armour, and of long-range force projection overseas, units for these kinds of missions would probably have to be manned by professionals.

He inferred that this would require a reduction in the ratio of conscripts to volunteers in the army, currently 185,000, to 110,000.

Mr Renon's proposal goes half-way to meet an idea advocated in some military circles, that conscripts should mainly be allocated to units destined for territorial defence inside France.

In general, however, there is little (audible) support among the senior military establishment for a wholly professional army.

By contrast, Mr Renon implied that there need be no change in the (much smaller) proportion of conscripts in the French navy and air force. In the navy, 30 per cent of the manpower is provided by conscripts (19,000 to 46,000 volunteers), in the air force the proportion is 40 per cent (36,000 to 58,000).

A reduction in the numbers of conscripts in the army, would mean an increase in the numbers exempted each year from national service, to the point where it could become politically controversial.

As it is, the army already rejects over 20 per cent of 18-year-olds on fitness grounds, and another 6.5 per cent are exempted on social or conscientious grounds.

# UK reservists' pay gap to be bridged

By Diane Summers, Labour Staff

MOST leading UK employers are committed to bridging any gap between military pay and what Gulf reservists would have earned in their ordinary jobs, according to an independent survey of private and public sector organisations.

Pension contributions, death cover and other benefits, including the use by reservists' families of company cars, have also been maintained by most employers.

The findings of the survey – conducted by the research group Industrial Relations Services – will go some way towards allaying reservists' fears that they could suffer financially during Gulf service.

Last month, Mr Norman Willis, general secretary of the Trades Union Congress in the UK, called on Mr Tom King, defence secretary, to clarify the legal position on reservists' pay and job security.

Under the Reserve Forces (Safeguard of Employment) Act 1986, employers are obliged to reinstate reservists after their return from service. The government extended this protection in December to volunteers.

However, under the law, employers do not have to carry on paying reservists or volunteers, or maintain their pension contributions.

A discretionary supplement of up to 30 per cent of service pay is being made available by the government. This supplement is being taken into account by most employers before they do their "topping up", according to IRS.

In most cases, organisations are offering volunteers the same benefits as reservists. A notable exception is the National Health Service, which is limiting compensation to employees who are called up.

The survey finds that guarantees offered by employers sometimes extend beyond basic pay to all earnings, including London weighting payments at British Telecom, shift pay at BICC, and contractual overtime at Kent County Council.

Death cover remains unaffected in many cases: Ford Motor Company, for example, has overruled the war risk clause in its superannuation policy to ensure death cover is maintained.

Most employers in the survey will maintain pensions contributions and, in the case of contributory schemes, employees will continue with their own contributions.

*Pay and Benefits Bulletin, by subscription from Industrial Relations Services. Eclipse Publications, 18-20 Highbury Place, London N5 1QP*

# Spanish protesters demand end to war

SEVERAL hundred anti-war protesters formed a human chain yesterday near a US-leased air base used to launch B-52 bombing runs on Iraqi troops in the Persian Gulf, reports AP from Moron de la Frontera in Spain.

More than 300 people took part in the peaceful demonstration near the entrance to Moron air base 400 kilometres southwest of Madrid, the state run news agency EFE said.

EFE said the protesters shouted slogans urging an immediate end to the Gulf War. They carried signs protesting against US and Spanish policy, including one that read: "How many children have you killed today, Bush?"

Spain has firmly backed all UN Security Council resolutions against Iraq since its invasion of Kuwait, and provides logistical support to the US-led force.

Socialist Prime Minister, Mr Felipe Gonzalez, said on Friday that Spain would continue to provide support to the allied force until Iraq withdrew.

But he urged the allies to consider changing their policy of bombing Iraqi cities and called for a UN or International Red Cross investigation into the bombing of a Baghdad refuge on Wednesday in which an undetermined number of civilians were killed.

# Indonesia wary of two kinds of friend

By Clare Bolderson in Jakarta

SINCE war broke out in the Gulf, the government of Indonesia has been treading a careful path between its friends in the west – its sources of economic aid – and its Moslem brothers in the Middle East.

Indonesia, though a secular state, is home to the world's biggest Moslem population. Pro-Palestinian and anti-Israeli sentiments run high. Indonesian officials have urged the population to remain calm and have been anxious to stress that the Middle East conflict is not a religious war.

Reaction to the war so far has been muted, although pro-Iraqi sentiment is not far below the surface. according to prominent Moslems within and outside the official Islamic organisations. The relatively quiet response may be not least because outspoken views are not tolerated by the Indonesian authorities. Public protests are rare and the press is strictly regulated.

There have been small, peaceful, anti-western demonstrations in Jakarta, where members of the security forces have outnumbered demonstrators. After the last gathering, six demonstrators were arrested and briefly detained.

The army, which sees Islamic fundamentalism as one of the biggest potential threats to Indonesian stability, has been used to crushing radical Moslems. Islamic leaders know that the military could do the same again.

Support for President Saddam Hussein of Iraq is prompted not by notions of Moslem solidarity but by a sense that he is an underdog battling an imperialist aggressor. As Rosihan Anwar, a Moslem journalist, puts it: "The predominant feeling is that a small, third world nation is being clobbered by an advanced, industrialised nation".

In Indonesia, which had a nationalist campaign against the west in the early 1960s under the late President Sukarno, Mr Rosihan says "this superpower arrogance is hard to swallow".

Pro-Saddam sentiments are also provoked by sympathy with the plight of the Palestinians in Israel and by the failure, as it is seen, of the US to address that problem.

Mr Lukman Harun, former vice-chairman of Indonesia's biggest Moslem organisation, the Muhammadiyah, describes this as "the American double-standard in the Middle East. When Israel occupies the Arab territories and kills people, the US does nothing. When Iraq occupies Kuwait, the US protects Kuwait. In Indonesia, the feeling is the US should have one policy."

The Iraqi president also gains some support through Indonesian distaste for the richer kingdoms in the Middle East. Many Indonesians feel these exploit their poorer Moslem brothers from Asia to maintain their high standard of living.

The government's official position is to support the UN-led forces in the Gulf. Indonesia has kept to the UN economic embargo against Iraq and has called on Iraq to withdraw from Kuwait.

However, it has also asked the US to give an assurance that withdrawal by Baghdad would lead towards settlement of other abiding Middle East issues, such as that of Palestine.

For the Indonesians, Saddam Hussein's offer last week of a conditional withdrawal from Kuwait must be seen as an important step in the right direction.



# Commonwealth resolute on S Africa sanctions

By Robert Mauthner, Diplomatic Correspondent

A NINE-NATION Commonwealth foreign ministers' committee decided on Saturday to maintain all trade, financial and sporting sanctions against South Africa pending the adoption of more concrete steps by Pretoria towards the abolition of apartheid.

Although welcoming the South African government's endorsement of multi-party constitutional talks and its intention to repeal remaining apartheid laws, the ministers said that, so far, "there had been little change on the ground".

They agreed, however, to meet again in New Delhi on April 30 to consider an "appropriate response" if by that time South Africa's President F.W. de Klerk had fulfilled his promises to release political prisoners, clear the way for the return of exiles, and repeal repressive security legislation, as well as the Group Areas, Land and Population Registration Acts.

Britain, which has refused to participate in the work of the committee, was disappointed by "its failure to recommend action". The Foreign Office said it hoped Britain's Commonwealth partners would agree to begin lifting sanctions well before the next Commonwealth Heads of Government meeting, due to be held in Harare in October.

During a telephone conversation earlier this month between Mr John Major and Mr Bob Hawke, the British and Australian premiers, they agreed "very strongly", according to British officials, that the time had come to lift Commonwealth measures against South Africa, especially in the sporting field.

Although Australia went along with the decision of the committee, it was clearly instrumental in the group's positive attitude towards the early lifting of sporting sanctions.

Mr Hawke said in Sydney that "if you have integration of sport in South Africa, and that is recognised by the relevant bodies, then there will be no reason why sporting contacts can't be initiated."

Mr Joe Clark, the Canadian chairman of the committee, and Chief Emeka Anyaoku, the Commonwealth secretary-general, strongly denied the ministers had been unduly influenced by the recommendation of the African National Congress (ANC) to maintain sanctions.

However, the committee – consisting of Australia, Canada, India, Nigeria, Tanzania, Zimbabwe, Zambia, Malaysia and Guyana – was addressed for 45 minutes by Mr Thabo Mbeki, a senior ANC official. It did not ask to hear a South African official.

In its final communiqué the committee said that, notwithstanding the welcome political developments in South Africa which, when implemented, would constitute "a major advance towards ending apartheid," there had been "more promises than concrete action by the South African government".

Ministers were particularly concerned by continuing constraints on political freedom. In spite of official assurances that it would repeal repressive provisions, the Pretoria government continued to make arrests and "clings to the most repressive provisions of all, detention without trial and restrictions on public meetings".

On sporting contacts with South Africa, the committee warmly welcomed the steps taken by a number of sport organisations within South Africa towards unity under non-racial administration.

The group agreed it was appropriate for those sporting codes which had achieved unity to be recognised by the international community and that "the Commonwealth should continue to be guided in this respect by the views of representative non-racial sporting organisations".

Chief Anyaoku said it need not be long before South African sporting organisations fulfilled the requirements allowing them to return to international sporting events.

Joe Clark: denied influence

# Soviet battle lines harden over prices

By Quentin Peel in Moscow

THE battle for power in the Kremlin could come to a head this week, as the Soviet parliament reconvenes and final plans for a traumatic price reform are published.

Mr Boris Yeltsin, the Russian president and greatest challenger to the power of President Mikhail Gorbachev, is scheduled to make a live televised broadcast to the nation tomorrow night, while Communist Party loyalists have stepped up their attack on his alleged threats to the survival of the Soviet Union.

A full-scale meeting of the Federation Council on Saturday, bringing together Mr Gorbachev and the leaders of all the Soviet republics, apparently failed to reach a clear conclusion on a joint price reform strategy, which Mr Yeltsin has refused to sign.

With price rises expected of up to 200 per cent on a vast range of foodstuffs and consumer goods, the reform is the single most explosive issue on the government agenda. Mr Gorbachev has been desperately trying to persuade all the republics to go along with it – and share the blame.

However the Soviet government, headed by Mr Valentin Pavlov, the new prime minister, cannot afford to delay increasing retail prices, because wholesale prices have already been raised from January 1 and every month they are not passed on means an increase in the state budget deficit of an estimated Rbs10bn.

"A decision on implementing a price reform should be taken as soon as possible, and it should be implemented all over the country," Mr Pavlov said in a television broadcast on Saturday. At the same time he appeared to back down a little from his sensational allegation last week that the country was facing an international conspiracy to destroy the economy and its currency.

He expressed surprise at the angry international reaction to his claim, and simply said he knew that some international banks were involved in trading non-convertible roubles.

His original claim was that they were planning to flood billions of hoarded roubles back into the country, to cause hyper-inflation.

Behind the growing hysteria of claims and counter-claims is a fundamental battle for power between the Communist Party, led by Mr Gorbachev, and an alliance of assorted democrats, whose most prominent leader is Mr Yeltsin.

A group of 29 conservative Communist organisations, including the Russian Communist Party, the Soyuz (Union) group of people's deputies, and the United Workers' Fronts of Russia, the USSR and Moscow, issued virtually a call to arms at the weekend, published in Krasnaya Zvezda, the Soviet army newspaper.

"The country has reached a critical point after which come anarchy and chaos, the collapse of the state, poverty and bloodshed," they said. They claimed that "fascist-type forces" had come to power in some areas of the country, dedicated to the destruction of the Union. They also denounced attempts to "pull apart the armed forces," including plans to set up separate republican armies – an obvious attack on Mr Yeltsin, who floated the idea of a separate Russian army.

The organisations said they had set up a "working conference to consolidate all patriotic and internationalist forces". The confrontation between the conservatives and the radical reformers seems certain to come to a head now in the Supreme Soviet, which has a mammoth agenda at its new session, including no less than 46 items of proposed legislation.

Behind that clash, however, lies the reality of a collapsing Soviet economy; with growing shortages now of basic steel products, coking coal, and key engineering products, spelt out at last week's meeting of the Cabinet of Ministers.

There it was stated that the metallurgical industry had failed to deliver 3m tonnes of rolled metal, 250,000 tonnes of steel pipes, and 620,000 tonnes of coke, to consumers in the course of 1990.

Mr Pavlov has announced a new reversal in government plans, switching back from promoting light industry to preventing heavy industry from collapsing. His government agreed that the steel industry must remain under unified central control, resisting the demands for local autonomy from all the union republics.

Through the looking glass, Page 13

# Fiat move on car emissions

By John Wyles in Rome

ITALY'S Fiat group plans to equip its entire passenger car range from the beginning of next year with exhaust emission control equipment designed to satisfy European Community standards due to come into effect from January 1 1993.

The announcement was linked with the signing at the weekend of a protocol between the company and the Italian government. This envisages the introduction of financial incentives by the government to encourage the purchase of the new "environmentally friendly" models.

According to Mr Cesare Romiti, Fiat's managing director, the new catalytic equipment to clean up car emissions will cost around L1.2m (£550) per vehicle. An "essential condition" of the operation, he said, was financial incentives which would cover at least part of this additional cost.

Mr Giorgio Ruffolo, Italy's environment minister, said he would urge the government to abolish a special tax on diesel engines which Fiat has regarded as unfairly discriminatory. The Turin company will also introduce a range of "clean" diesel engines in conformity with EC rules from next January.

At the same time, the company plans to market an exhaust system which will reduce noxious emissions by 50 per cent for fitting to cars already in use. Again, it is urging the government to provide financial incentives.

The company's agreement with the government – due to be formally ratified by a cabinet committee by June – is designed to show that Italy's largest private company is taking a lead on environmental protection.

The company says it will invest L2,646bn over the next three years on environmental research programmes, on waste disposal and on changing manufacturing processes to reduce the incidence of industrial waste.

Mr Romiti added that Fiat Auto's overall investment programme would total L15,000bn over the next three years. The investment would be self-financed without recourse to bank debt or capital increases.

# Germany slows fall in Europe's car sales

By Kevin Done, Motor Industry Correspondent

NEW CAR sales fell heavily in most west European markets last month, but the decline was moderated by a surge in demand in Germany fuelled by reunification.

Overall, new car sales in west Europe, including eastern Germany, fell by 2.3 per cent to 1.225m, according to industry estimates. Sales were sharply lower in 14 of 17 markets.

New car sales in the whole of Germany last month are estimated to have jumped by about 57 per cent to 335,000 units compared with official new car registrations of 213,000 in West Germany alone in January last year. The only other markets to show any gains were Austria and Italy.

New car sales fell 21 per cent in the UK, by 23 per cent in France, by 29 per cent in Spain and by 43 per cent in Sweden. (The underlying fall in France was about 7.3 per cent as registrations in January last year were artificially inflated by the processing of applications left over from December 1989, when police stations were on strike).

West European new and used cars began to flow into eastern Germany in significant volumes last summer in the wake of German monetary union.

German unification is having a profound impact on the shape of the European new car market and on the fortunes of individual car makers.

In January Germany alone accounted for more than a quarter of all west European new car sales.

The surge in German sales coupled by the sharp decline in demand elsewhere significantly boosted the European market shares of Volkswagen, General Motors (Opel/Vauxhall) and Ford, the three leaders in the German market. Fiat, Peugeot and Renault all lost ground.

The German Federal Motor Vehicle Office is struggling to bring the collection of statistics in the five new Länder into line with the rest of the country, and official German registration statistics still separate west and east Germany.

However, most industry sales estimates now include eastern Germany in the west European figures, given western car makers' open access to the market. The accompanying table includes eastern Germany in the 1991 figures.

Helped by its dominant position in Germany, Volkswagen increased its sales in Europe by an estimated 10 per cent in January, capturing a market share of 15.7 per cent compared with 13.9 per cent a year ago.

The Fiat group, which again lost ground heavily in the domestic Italian market, suffered a drop in its market share to 13.5 per cent from 14.8 per cent.

**WEST EUROPEAN NEW CAR REGISTRATIONS***
**January 1991**

| | Volume (Units) | Volume Change (%) | Share (%) Jan 91 | Share (%) Jan 90 |
|---|---|---|---|---|
| TOTAL MARKET | 1,225,000 | −2.3 | 100.0 | 100.0 |
| MANUFACTURERS: | | | | |
| Volkswagen (incl. Audi & SEAT) | 192,000 | +10.0 | 15.7 | 13.9 |
| Fiat (inc. Lancia, Alfa Romeo, Ferrari, Innocenti, Maserati) | 165,000 | −10.7 | 13.5 | 14.8 |
| General Motors (Opel/Vauxhall, US# & Saab) | 157,000 | +8.1 | 12.8 | 11.6 |
| – Opel/Vauxhall | 152,000 | +9.0 | 12.4 | 11.1 |
| – Saab** | 4,400 | −20.5 | 0.3 | 0.4 |
| Ford (Europe, US# & Jaguar) | 153,000 | +7.4 | 12.5 | 11.4 |
| – Ford Europe | 151,000 | +8.3 | 12.3 | 11.1 |
| – Jaguar | 1,500 | −38.9 | 0.1 | 0.2 |
| Peugeot (incl. Citroën) | 144,000 | −18.0 | 11.7 | 14.0 |
| Renault†† | 125,000 | −7.5 | 10.2 | 10.7 |
| Mercedes-Benz | 47,000 | +4.8 | 3.7 | 3.4 |
| Rover† | 37,000 | −5.2 | 2.9 | 2.9 |
| Nissan | 35,000 | +2.5 | 2.7 | 2.5 |
| BMW | 32,000 | −14.3 | 2.5 | 2.8 |
| Toyota | 28,000 | +4.0 | 2.2 | 2.0 |
| Mazda | 25,000 | +9.8 | 1.9 | 1.7 |
| Volvo†† | 21,000 | −21.3 | 1.7 | 2.0 |
| Mitsubishi | 16,000 | +8.1 | 1.3 | 1.1 |
| Honda† | 13,000 | +4.1 | 1.0 | 0.9 |
| Total Japanese | 135,000 | +4.8 | 11.0 | 10.2 |
| MARKETS: | | | | |
| Germany* | 335,000 | +57.1 | 27.4 | 17.0 |
| Italy | 240,000 | +1.6 | 19.6 | 18.9 |
| France | 180,000 | −23.1 | 14.7 | 18.7 |
| United Kingdom | 164,000 | −20.8 | 13.4 | 16.5 |
| Spain | 59,000 | −26.6 | 4.8 | 6.6 |

*Includes eastern Germany in 1991.
#Cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile.
†Honda holds a 20 per cent stake in Rover vehicle operations.
††Renault and Volvo are linked through minority cross-shareholdings.
Source : Industry estimates

Security forces examine vehicles damaged when a bomb exploded in the car park of a Medellín bullring

# Police likely target as Medellín blast kills 22

By Sarita Kendall in Bogotá

AT LEAST 22 people were killed and 140 injured when a bomb exploded alongside the bullring in Medellín, the centre of Colombia's cocaine trade, late on Saturday.

The explosion occurred as fans left the bullfight. The police seem to have been the target as the bomb was placed near a police vehicle. Ten policemen were among the dead.

According to a radio report yesterday, terrorists working for drug traffickers claimed responsibility for the bomb. Medellín, the base of Colombia's biggest cocaine cartel and 250km north-west of Bogotá, the capital, has been a battleground since traffickers declared war on the government in August 1989.

This was the first big bomb blast since traffickers called a truce last July after dozens of assassinations and explosions.

The explosion came hours after the surrender of Mr Juan Ochoa, who is wanted for extradition by the US and alleged to be a leading cocaine trafficker. Mr Ochoa is the third of the Ochoa brothers to give himself up under the government's offer of reduced sentences and no extradition in exchange for surrender and confession.

The traffickers, who are pressing for further concessions, issued a communiqué on Friday saying they were still respecting the truce.

However, the kidnap and murder last week of President César Gaviria's first cousin, Mr Fortunato Gaviria, was attributed by police to the Medellín cartel after they had questioned suspects.

# Debate over European defence set to intensify

By David Buchan in Brussels

DEBATE over the future structure of European defence is likely to intensify as Mr Willem Van Eekelen, secretary-general of the Western European Union defence organisation, holds talks with Nato today.

The meeting, in advance of Friday's gathering of foreign ministers of WEU member countries, will consider putting the organisation under the supervision of the European Community, but allow it to continue as a separate group and as the link between Nato and the Community.

WEU has nine members that belong to both Nato and the EC. Of key interest are Mr Van Eekelen's proposals concerning "double hatting". Senior European commanders in Nato's military structure would be given a European, as well as a Nato, "hat" which they would "wear" on purely WEU operations.

These might take the form of joint WEU operations outside Nato's established area of action, such as in the Gulf. Last week Mr Van Eekelen, a former Dutch defence minister, told Mr Jacques Delors, president of the European Commission, of his plans to transfer WEU to Brussels and to link it to the Community.

Last Friday minister were presented with the WEU's proposals. These proposals are likely to upset the US, government which publicly backs a common European security effort but which dislikes anything resembling smacking of a European cabal within Nato.

The US also wants Nato to be the prime forum for discussing security relationships with eastern Europe, a role resisted by France. But the WEU is entering this arena as well. Mr Van Eekelen, along with the current French presidency of WEU, is due to visit Poland, Czechoslovakia and Hungary this spring.

**WORLD ECONOMIC INDICATORS**

RETAIL PRICES (1985=100)

| | Jan.'91 | Dec.'90 | Nov.'90 | Jan.'90 | % change over previous year |
|---|---|---|---|---|---|
| Japan | 111.0 | 109.9 | 110.0 | 106.5 | +4.2 |
| W.Germany | 108.8 | 108.1 | 108.0 | 105.8 | +2.8 |
| UK | 137.7 | 137.3 | 137.4 | 126.3 | +9.0 |
| Netherlands | 104.8 | 104.8 | 105.0 | 102.0 | +2.7 |
| | Dec.'90 | Nov.'90 | Oct.'90 | Dec.'89 | |
| US | 124.4 | 124.4 | 124.1 | 117.2 | +6.1 |
| France | 118.0 | 118.0 | 118.2 | 114.1 | +3.4 |
| Belgium | 112.6 | 112.7 | 113.1 | 108.8 | +3.5 |

Source: Datastream

# Philippines outlines economic plan

By Greg Hutchinson in Manila

MONTHS of austerity and continuing dependence on external financing will mark the Philippines, according to its proposed new economic programme which is to be considered by the International Monetary Fund on February 20.

A letter of intent to Mr Michel Camdessus, IMF managing director, outlines the plan, which replaces a growth-oriented programme that unravelled at the start of the Gulf crisis.

The government is asking the IMF for an 18-month stand-by arrangement of SDR 264.2m, with a quarter of the amount going towards debt reduction. The country has a foreign debt of $28.4bn (£14.3bn).

# Ozal's ambitious spouse threatens party unity

By John Murray Brown in Ankara

MRS Semra Ozal, wife of the Turkish president, formally announced this weekend her bid to head the Istanbul branch of the ruling Motherland party (ANAP).

The announcement has caused a furore in the ANAP, which her husband Turgut helped found in 1983, by unsettling the party's cosy consensus dividing liberals and conservatives on the Islamic wing who strongly oppose women having a role in public affairs.

Analysts say Mrs Ozal's candidacy could determine which way the city's 24 ANAP deputies vote in the likely leadership challenge to Yildirim Akbulut, the prime minister, at the party convention, tentatively set for April.

President Ozal has distanced himself from the wrangle, suggesting he no longer feels dependent on ANAP backing for his policies.

Since the start of the Gulf crisis he has lost his defence and foreign ministers. His chief of general staff has also resigned.

Now it appears his wife's political ambitions threaten his relations with the prime minister, hitherto his key cabinet ally.

Mrs Ozal's taste for cigars and whisky and her collection of antique revolvers already makes her good newspaper copy. Yet no one is underestimating her serious political intentions.

Already a party delegate, she is the founder of the Foundation for the Strengthening and Recognition of the Turkish Woman – better known as the Daisies.

This is a charity started in 1986 which has done much to enforce some of the rights endorsed by Turkey's constitution but never accepted by the Moslem society. It has, for example, converted thousands of religious marriages into civil contracts, under which women have equal rights under inheritance and claims on children in a divorce.

Mrs Ozal's latest move will doubtless be seen by conservatives as a further threat to male dominance of Turkish politics.

Yet success is by no means a foregone conclusion. Istanbul, which was Mr Ozal's constituency before he rose to the presidency in 1989, has always been seen as a conservative stronghold.

Despite being the country's financial centre and traditionally the home of "European Turkey", one in seven of the city's 7m inhabitants are urban immigrants from rural areas, where traditional Moslem values prevail.

On Tuesday, in what seemed a thinly veiled warning to Mrs Ozal, the premier told parliament that any challenge to ANAP's "conservative and nationalist" principles would split the party.

But Mr Mesut Yilmaz, the former foreign minister, has publicly voiced support for Mrs Ozal's candidacy this week, as did Mrs Imren Aykut, the labour minister and currently the only woman in the cabinet. There are six female MPs in Turkey.

## Hungary to privatise bus maker

The Hungarian government yesterday reopened the privatisation of Ikarus, the bus manufacturer, and Csepel Auto, an important supplier to the company, writes Nicholas Denton in Budapest.

Mr Laszlo Balazs, government spokesman, complained that the leading contender which might be currently bidding for the bus industry was the "bizarre combination" of Ikarus's Soviet customers and a Taiwanese investment group. A Soviet-Taiwanese consortium had offered $200m for a 56 per cent stake in the two companies.

## Havel criticises Czech parliament

President Vaclav Havel criticised parliament yesterday for delaying economic legislation and warned that Czechoslovakia faced economic collapse unless wrangles over privatisation were resolved, Reuter reports from Prague.

"The economy will collapse unless we have proper legislation," Mr Havel said in his regular weekly radio interview.

"Our country is in... danger. The economy as well as the system will collapse and the president will only be able to look on because he has no powers."

Mr Havel failed last year in an attempt to have his presidential powers increased.

## Pakistanis protest over sell-offs

Thousands of Pakistani workers staged a one-day strike yesterday to protest at plans by the government of Prime Minister Nawaz Sharif to privatise most state-run industries, AP reports from Karachi.

Some 350,000 workers are estimated to have taken part in the strike. The action was restricted to Karachi, the country's largest city and its most important financial and industrial centre.

## Benin democracy drive set back

The likelihood of a smooth transition to democratic rule in the West African state of Benin received a jolt at the weekend, when the incumbent president, Mr Mathieu Kerekou, announced he would stand for re-election in a month's time, writes William Keeling in Cotonou, Benin.

His decision has shocked the 14 candidates hoping to replace him and has jeopardised the year-old programme of political and economic restructuring. President Kerekou took power in a military coup d'état 19 years ago.

## Cape Verde goes to the polls

Cape Verde completed its transition from a one-party to multi-party system yesterday with a presidential election widely expected to end the PAICV party's 15-year rule, Reuter reports from Praia.

Political forecasters predicted that Mr Antonio Mascarenhas Monteiro, 47, candidate of the Movement for Democracy (MPD) party, would oust PAICV incumbent Mr Aristides Pereira.

Many of the 160,000-strong electorate said they would not vote after a four-week election campaign which turned into a slanging match between the two candidates. Official results are expected later today.

## Peru confirms post for Boloña

Mr Carlos Boloña Behr, a 40-year-old economist with an Oxford University doctorate, has been confirmed as Peru's new economy minister, writes Sally Bowen in Lima.

Mr Boloña is regarded as an orthodox economist. He was chief adviser to Mr Carlos Rodriguez Pastor, economy minister in Mr Fernando Belaunde's 1980-85 administration.

## Marine hurt in Chile attack

A US marine was hurt in a late-night rocket attack on the residence of US embassy security staff in the Chilean capital, police said yesterday, Reuter reports from Santiago.

In the attack on Saturday night a light anti-tank rocket smashed into a car parked in front of the building. One marine was hit in both arms by flying glass but was not seriously hurt. No one claimed responsibility.

## Former Contra chief killed

Mr Enrique Bermudez, a former Contra leader, was shot and killed late on Saturday by an unidentified gunman, AP reports from Managua.

Mr Bermudez, a member of the Contra Directorate that waged war against the former Sandinista government, was shot once in the head.

# Wakeham to be pressed on electricity price rises

**By Della Bradshaw**

MR Frank Dobson, Labour's shadow energy secretary, will today demand a statement for Mr John Wakeham, the energy minister, about weekend press reports claiming that the cost of electricity to the consumer may rise by up to 13 per cent from April.

Such price rises would be a blow to the government's anti-inflationary policies, as well as fuelling the argument from the opposition benches that the privatisation of the utilities has meant high prices for consumers in order to line the pockets of shareholders.

Although the 12 electricity companies need not submit their new prices to the electricity watchdog, the Office of Electricity Regulation, until early March – 28 days before the price rises come into effect on April 1 – Mr Dobson is eager to air the subject in parliament as soon as possible.

The complicated mechanism used by the electricity companies to calculate price increases was built into their licences when they were privatised. It says that if they fail to increase their prices by the rate of inflation one year, then the loss can be made up in the subsequent year.

The inflation figure used in calculating the April price rises is the predicted figure for the following October. Because the government badly underestimated the upturn in inflation last year, the electricity companies say their prices over the past year have been too low – by 4.9 per cent.

If the companies add this 4.9 per cent figure to the inflation rate predicted for next October – about 5.5 per cent – all of them will be looking for rises of more than 10 per cent. Additional investment costs – allowed for several of the 12 regulated companies – may push the figure to 13 per cent.

Most of the companies are quietly confident they will win approval for the increases. However, Mr Dobson said such rises would be contrary to undertakings given by Mr Wakeham that prices for domestic consumers would not rise above inflation in the three years to March 1993.

Mr Wakeham made the promise after the electricity companies raised their prices in April last year by an average of 9.2 per cent. The highest price rise last year was from South Wales Electricity, which increased its prices by 12.9 per cent.

"Our position is that this is just another fine mess Mr Wakeham has got us in to," said Mr Dobson.

# Chambers of commerce told to reform services

**By Charles Batchelor**

BRITAIN'S chambers of commerce need a radical overhaul to concentrate resources in just 50 large chambers, recommends a report by the London School of Economics.

The 200-page report for the Association of British Chambers of Commerce says that just over 30 UK chambers from a total of 100 large chambers and many very small ones come close to the required standard of providing service.

Chambers need a large enough business catchment area to be able to develop their business services such as exporting, providing information and training.

For chambers to provide a full range of services they should have a minimum turnover of £1m and at least 34 staff, the report says.

Smaller, local chambers should be able to retain their identities if they take on the role of delivering local services for larger chambers.

Chambers will study the report's recommendations before a national conference in March to discuss the future of the organisation.

Last October, the Association of British Chambers of Commerce launched a campaign to catch up with their better resourced continental counterparts.

Seven more chambers – in Bristol, Dorset, Milton Keynes, Southampton, Stockport, Sussex and Swindon – are joining the association.

These chambers represent 10,000 companies, taking the total of affiliated businesses to 85,000.

The report will be published in June.

# National Insurance fund surplus of £1.8bn forecast

**By Eric Short,** Pensions Correspondent

THE National Insurance fund is expected to show a surplus of £1.82bn for the present financial year, a sharp turnround from a £1.72bn deficit forecast a year ago by Mr Chris Daykin, the government actuary.

The latest forecast on the financial position of the fund reflects higher earnings and more contributors than were originally estimated. That added £790m to the contribution income of the fund, according to Mr Daykin's report.

The main improvements, however, came from one-off changes in the fund's liabilities not allowed for in his earlier estimate.

Changes in statutory sick pay and statutory maternity pay improved the finances by £1.29bn, while removal of industrial injuries benefits saved £574m.

The turnround comes in spite of £1.47bn paid out in contribution rebates and £619m in incentive payments to employees using personal pensions to contract out of the State Earnings-Related Pension Scheme (Serps).

The government has already announced that contribution rates to the NI fund will remain virtually unchanged for the coming 1991-92 financial year – employers' basic rate is reduced from 10.5 per cent to 10.4 per cent, while employees' basic rate remains at 9 per cent.

However, Mr Daykin is forecasting a £977m deficit for the coming year, with the number of employees contracted out of Serps reaching 4.4m by the start of the year and costing the fund £2.49bn – £1.74bn in rebates and £749m in incentive payments.

On Treasury instructions, however, he has assumed that the number of unemployed in 1991-92 will be 1.75m as given in the 1990 Autumn Statement – an assumption overtaken by events.

Each additional 100,000 unemployed will increase the deficit by £195m.

*Report by the Government Actuary. Cmnd 1366. HMSO, £3.15.*

# Cabinet warned on history teaching

NEW guidelines for the teaching of history would mark the end of traditional teaching of the subject in schools, a right-wing think-tank warns the government today.

The guidelines, which set out new methods of teaching and assessment, are condemned by the Centre for Policy Studies as "damaging".

Dr Sheila Lawlor of the CPS has written to Mr Kenneth Clarke, the education secretary, listing her objections to what she calls an attempt "to regulate the entire teaching of history in schools".

Announcing the guidelines last month, Mr Clarke said pupils up to the age of 14 should study a range of topics in British, European and world history. Pupils between 14 and 16 should concentrate on events since 1900.

Children are also to be tested on their ability to interpret history and judge sources. The moves go against advice from teachers and National Curriculum Council administrators.

# Consumer body urges cut in phone charges

**MILLIONS of telephone users who make few calls or only use their phones at off-peak times should be entitled to cheaper charges, the National Consumer Council said yesterday.**

**It also called for special help to allow people on low incomes to have telephones because, the council said, the current levels of installation charges were deterring some poorer people from renting a line.**

**In a report aimed at the government, which is reviewing the future of the telephone industry, the council said a smaller percentage of needy people in the UK had a phone than in many other western countries.**

**"We want it to become easier for everyone to have a telephone," said Lady Wilcox, the council chairman. "There are still single pensioners dependent on state benefits who do not have a telephone, as well as many single-parent families and other low-income families."**

**British Telecom, which has 25m customers, wants more flexibility in setting charges and has suggested cheaper calls at the expense of higher rentals. It has also proposed allowing a limited number of free calls for elderly and handicapped people, who regard their phone as a "lifeline".**

**Lady Wilcox said the rebate scheme for people who made few calls amounted on average to only £1.25 a quarter. "We would like to see lower charges for the bottom 25 per cent of users," she said.**

*National Consumer Council, 20 Grosvenor Gardens, London SW1W 0DH. £2.50 (incl postage).*

BT needs to come clean, Page 12

# Old-style rates return to agenda

**Philip Stephens** looks at the cabinet's troubled poll tax review

MINISTERS reviewing poll tax agree on one thing: they must fight the general election with a pledge to abolish or to reform it beyond recognition. Beyond that, two months of deliberations in Mr John Major's government have brought little but frustration.

As one, rather cynical, Whitehall official put it last week, ministers are re-learning the hard way a basic political truth: "Promises are easy to make but sometimes they must be kept."

Two months into its review, the cabinet committee charged with the task has concluded only that it must soon begin to discard publicly the least credible options. Officials who have seen the Conservatives grappling unsuccessfully with local-government finance since 1979 are drawing a politically embarrassing conclusion.

They believe that if Mr Michael Heseltine, the environment secretary, is to be able to offer anything substantive ahead of the May local elections he will have to advocate a return to a modified system of the domestic rates.

The *volte face* could be wrapped and rewrapped in attractive packaging promising a fairer version of that system; Whitehall's filing cabinets are full of such wheezes. It could be based on capital values rather than the imputed rents used to calculate rates, although officials say that the former option carries greater political risks. It could be combined with the pledges to overhaul the structure of local government.

It would need, however, a distinctly uncomfortable display of political humility to accept what the Treasury has long believed is self-evident – the most effective way to finance local government is through a tax on property.

The immediate pressures for a fairly rapid decision are obvious. Few believe that the £1.7bn community charge reduction scheme announced last month will forestall another outcry when April's poll tax bills rise to an expected average of about £420 per person. The local elections, the litmus test of whether Mr Major has the option of a June general election, will follow a few weeks later.

The Labour party, which is committed to a system of "fair rates", is aware of the political opportunities. The debate it has timed for tomorrow in the Commons will be followed by a sustained campaign to keep the issue at the top of the domestic political agenda.

Whitehall officials, meanwhile, are warning that the uncertainty over the future of local-government finance will increase further the damagingly high level of non-payment. Either the Treasury or poll-tax payers will have to pick up the bill.

Ministers insist that their deliberations have been free of the rancour of a similar review last year under Mrs Margaret Thatcher's leadership. "We are all in this together. There is nothing to be gained by scoring points off each other", one commented yesterday. But a congenial atmosphere has not proved enough.

As Mr Heseltine has put forward the alternatives, each has run into strong objections from one or more Whitehall departments, with the Treasury taking the lead. Mr Major, who has made great play elsewhere of his willingness to delegate decisions, has insisted that the poll tax is one area where he will take the final decisions.

Many Tory MPs remain wedded to the principle that every adult should contribute something to pay for local services. But the widely-canvassed proposal to combine a new property tax with a much smaller – say £100 – flat-rate charge has failed to win friends in the cabinet.

It would retain the administrative headaches of the poll tax to collect a much smaller amount of money. Heads of households in the shire counties might pay a "personal supplement" for their adult children, but maintaining registers and ensuring payment in urban areas would be hugely expensive. Nor is there significant support for the suggestion, backed recently by 80 Tory MPs, that the poll tax could be retained if the £7bn of locally-raised revenue spent on education was transferred to central government.

Treasury officials, who regard any diminution of the tax base as criminally irresponsible, wonder how ministers would sell to the voters the idea of adding 4p or 5p to income tax rates while attacking Labour's tax plans. Resulting poll tax bills of £200 or so would be expensive to collect and probably still seen as *unfair*.

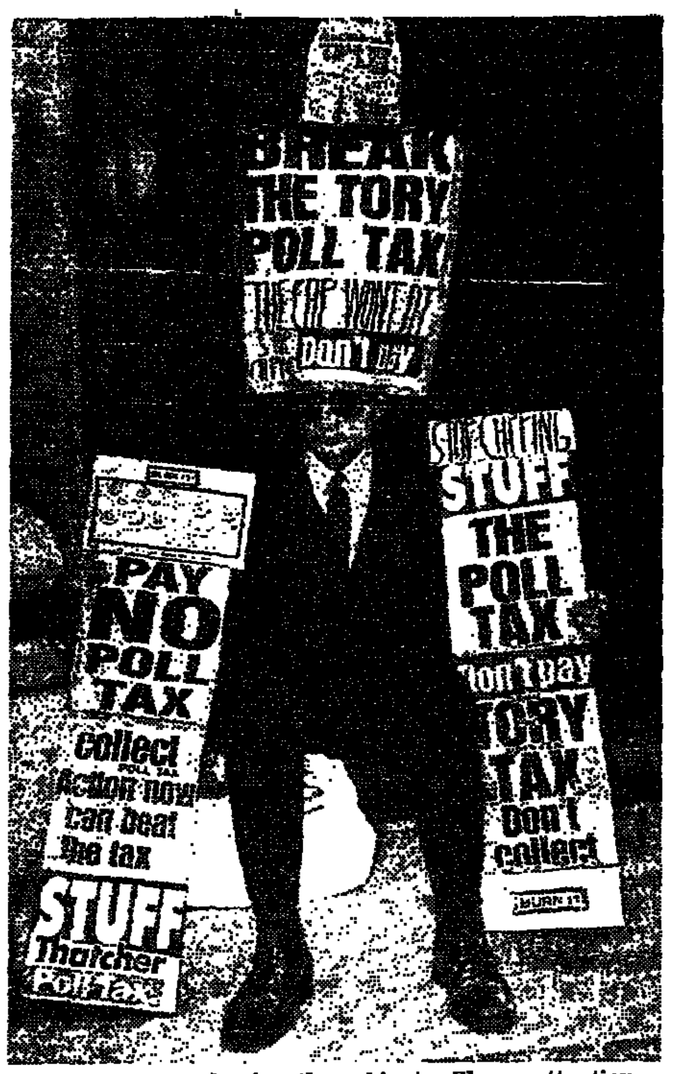
Nor is Mr Kenneth Clarke, the education secretary, keen on "nationalising" the schools. As with the NHS, responsibility for every shortcoming could be pinned directly on the government. Mr Clarke, a former health secretary, does not want to be blamed every time a child is short of a textbook.

There is no enthusiasm for local income tax or a sales tax. Ministers have concluded that a local income tax would be practicable but politically unacceptable, while sales taxes would require much larger administrative units than the present local authority structure allows for.

Reform of the structure of local government does not in itself offer a way out. There is no real consensus on a move, for example, to establish single-tier authorities by abolishing the county councils, or on the role which might be offered to directly-elected mayors.

Agreement on those issues might provide a more credible framework for change but it would not offer any magic solutions on how to pay for local services.

As yet, most ministers find it as hard to contemplate in private as in public the possibility of a return to the rating system. But, as one admitted yesterday, it may well prove the least painful of a distinctly awful bunch of options.



**One man's view: hoping the cabinet will pay attention**

# Entry curbs alleged at homes for elderly

**By Alan Pike,** Social Affairs Correspondent

HALF of Britain's residential and nursing homes will not accept residents who are unable to top up social security payments from their own resources, a survey shows today. It was conducted by the Elderly Accommodation Council, a charity, for Mr Michael Meacher, shadow social security secretary.

Many elderly and infirm people rely on social security income support to pay for accommodation, and the issue has become financially important for the government; the Department of Social Security spent nearly £1.3bn on supporting people in residential and nursing homes last year.

In spite of this level of public expenditure, home proprietors are concerned that benefits have not kept up with rising costs in recent years. The survey shows that only 772 of 1,547 homes were prepared to consider taking residents at social security levels with no top-up.

There is, according to the survey, an average gap between benefit levels and actual charges of £9.01 per week in residential homes and £28.67 in nursing homes. The council suggests that the shortfall will rise sharply.

Mr Meacher said government delays in implementing forthcoming community care reforms were putting burdens on increasing numbers of elderly and vulnerable people. They could not secure the necessary community help to continue living in their own homes, and would be turned away from residential and nursing homes because of insufficient social security support.

A report from the National Association of Citizens Advice Bureaux is expected this week to voice further concern about the shortfall between income support and residential home fees.

● Parents caring for young adults with severe learning and behavioural difficulties would prefer their children to die rather than enter permanent residential care, according to research by the Joseph Rowntree Foundation.

# Video rental market in decline

**By Alice Rawsthorn**

NEARLY a million video tapes were rented every day in Britain last year, according to industry figures, but the video rental market is declining as sales of pre-recorded cassettes increase.

Latest statistics from the British Videogram Association show that there were 374m video rental transactions in 1990. That represents a 5.5 per cent fall on the 396m transactions during 1989.

The value of the video rental market also fell by 1 per cent to £564m during the year. The average cost of renting a video rose by 5 per cent, well below the rate of inflation.

Comedies were the most popular choices for rental, followed by adventure films, thrillers and drama programmes. The association estimates that 14.85m British homes have a video, an increase of about 1m during 1990.

In its early days, the video market was dominated by people renting cassettes. But in recent years, as the rental market has slowed, sales of pre-recorded cassettes have risen significantly.

The Cinema Advertising Association estimates that 39 per cent of the population bought a pre-recorded cassette in 1990, compared with 37 per cent in 1989. The average price of bought cassettes rose from £9.20 to £9.76 during the year.

The advertising association said Indiana Jones and the Last Crusade was the most popular video last year.

# Liverpool deals report to reach DPP soon

**By Ian Hamilton Fazey,** Northern Correspondent

MERSEYSIDE'S fraud squad expects to submit its report on allegedly corrupt land deals involving Liverpool City Council to the Director of Public Prosecutions within a few days.

So far 23 people have been arrested in Operation Cheetah, the police codename for the inquiries. All but two, who were charged with unconnected thefts, were released on police bail and are due to report to the police on March 25. The DPP should then have decided whether to press charges.

Police raided more than 50 private and business premises in October, including the Liverpool offices of Wimpey, from where they removed documents.

The last of the arrests, of Mr Tony Byrne, finance chairman of Liverpool City Council during most of the confrontation with the government in 1983-87, came last month during an interview at the Fraud Squad's Bootle base.

Although not a member of Militant, the hard-left group proscribed by the Labour Party, Mr Byrne was an architect of the Militant-dominated council's urban regeneration strategy.

Mr Derek Hatton, former deputy leader of the council, was among the 22 arrested in October. Others included Mr Alan Worthington, regional director of Wimpey's north-west division, and Mr Geoffrey Slater, who retired as regional director in 1989.

Wimpey's north-west division employed Settleside, Mr Hatton's public relations company, as marketing consultants until the end of 1989. Settleside went into liquidation in November when business fell off after publicity about the arrests.

Mr Hatton and Mr Byrne were among 47 Labour councillors disqualified from holding public office for five years in 1987 – after an appeal which went to the Lords – because of losses to the city incurred by the council's delay in setting a rate in 1985.

Those on police bail also include Mr Max Robinson and Mr Anthony Sykes, directors of Tentigo and Sterling Land and Property, two small Stockport property companies; Ms Hannah Folan and Mr George Knibb, Liverpool councillors; Mr John Nelson, a former Liverpool councillor; and Mr Tony Beygar, a former Knowsley councillor.

Mr Anthony Criss, of Beavan Murch, which is part of J. Trevor & Sons – a subsidiary of Abbey National's Cornerstone estate agency chain – was also arrested in October, as was Mr John Gidman, the former Everton and England soccer player.

Last week Mr Gidman was disqualified from holding office as a company director for two years after a court inquiry into the collapse of a sporting goods business he co-owned. He has denied wrongdoing over land deals and has emphasised his willingness to co-operate with police inquiries.

# BR predicts near-normal service today

**By Jimmy Burns**

MOST British Rail trains are expected to run normally from today after nearly two weeks of disruption because of snow, BR said yesterday.

Although there may still be some cancellations on the southern part of Network SouthEast, only two lines are expected to face serious disruption until the end of the week. That is because of continuing delays in replacing damaged equipment.

The lines are the Thameslink cross-London route, where only half the trains were running at the end of last week, and the Peterborough to King's Cross line.

In spite of the gradual return to a normal service, the government is facing growing pressure to loosen the stringent financial controls imposed on BR during the premiership of Mrs Margaret Thatcher.

Sir Bob Reid, BR's chairman, said on BBC Radio yesterday that a new approach to funding was needed from the government.

He predicted that political circumstances would make the provision of more money for rail travel inevitable.

He said: "Once you get the investment you will get the sort of trains that will work satisfactorily.

"We are not asking for subsidy. What we are asking for is investment funds which we can put into new rolling stock, renew our signalling, and then we can give people a reliable service."

The Department of Transport said it was not considering big changes to the financing of BR. Noting that BR was experiencing a "record level of investment", it blamed the board's financial difficulties – falls in property sales and ticket revenue – on the economic climate.

However, Sir Bob argued that the government's present £4bn investment programme was badly structured by being limited to the next three years. What was needed to upgrade the railways was the guarantee of a longer-term financial strategy – between £1m and £2m a year over at least the next five years.

The "massive congestion" on the roads and the "environmentally friendly" nature of trains meant that the time was ripe for increased investment in railways.

BR denied reports that much of the disruption suffered last week could have been avoided if local managers had agreed to pay extra overtime to staff to clear the snow and maintain trains.

A BR official said many railway staff had been paid overtime for running trains throughout the night to try to minimise the amount of snow on the tracks, and for repairing damaged motors on electric trains.

Overtime had also been paid to crews operating trains delayed by the snow.

However, union sources said few track workers had been called out at night during the snow and that staff shortages – due to cuts in recent years – contributed to the disruption at London stations such as Euston and Waterloo.

Before the bad weather, BR's senior management had been trying to end the costly "overtime culture" among its employees by offering to raise basic pay rates and roster staff more flexibly seven days a week.

Sir Bob described certain aspects of BR's industrial relations as belonging to the 1930's.


**Sir Bob Reid: wants new approach from government**



## BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| ABN Bank | 13½ | Co-operative Bank | 13½ | Nat Bk. of Kuwait | 13½ |
| Adam & Company | 13½ | Coutts & Co | 13½ | NatWestminster | 13½ |
| Allied Trust Bank | 14 | Cyprus Popular Bk | 13½ | Northern Bank Ltd | 13½ |
| AIB Bank | 13½ | Dunbar Bank PLC | 13½ | Nykredit Mortage Bank | 14 |
| ● Henry Ansbacher | 13½ | Duncan Lawrie | 13½ | Provincial Bank PLC | 15 |
| Associates Cap Corp | 15½ | Equatorial Bank plc | 14 | Roxburghe Bank Ltd | 14½ |
| B & C Merchant Bank | 13½ | Exeter Bank Limited | 14 | Royal Bk of Scotland | 13½ |
| Bank of Baroda | 13½ | Financial & Gen. Bank | 13½ | ● Smith & Williamson Secs | 13½ |
| Banco Bilbao Vizcaya | 13½ | First National Bank Plc | 16 | Standard Chartered | 13½ |
| Bank Credit & Comm | 13½ | ● Robert Fleming & Co. | 13½ | TSB | 13½ |
| Bank of Cyprus | 13½ | Robert Fraser & Ptrs. | 14 | Unibank plc | 13½ |
| Bank of Ireland | 13½ | Girobank | 13½ | ● United Bk of Kuwait | 13½ |
| Bank of India | 13½ | ● Guinness Mahon | 13½ | United Mizrahi Bank | 14 |
| Bank of Scotland | 13½ | ● Hambros Bank | 13½ | Unity Trust Bank Plc | 13½ |
| Banque Belge Ltd | 13½ | Hampshire Trust Plc | 14½ | Western Trust | 13½ |
| Barclays Bank | 13½ | Heritable & Gen Inv Bnk. | 13½ | Westpac Bank Corp. | 13½ |
| Benchmark Bank | 14 | ● Hill Samuel | 13½ | Whiteaway Laidlaw | 13½ |
| Brit Bk of Mid East | 14 | C. Hoare & Co | 13½ | Yorkshire Bank | 13½ |
| ● Brown Shipley | 13½ | Hongkong & Shangh | 14 | | |
| CL Bank Nederland | 13½ | ● Leopold Joseph & Sons | 13½ | | |
| ● Charterhouse Bank | 13½ | Lloyds Bank | 13½ | | |
| Citibank NA | 13½ | Meghraj Bank Ltd | 13½ | | |
| City Merchants Bank | 13½ | McDonnell Douglas Bnk | 13½ | | |
| Clydesdale Bank | 13½ | Midland Bank | 13½ | | |
| Comm.Bk.of London Plc | 13½ | Mount Banking | 13½ | | |

● Members of British Merchant Banking & Securities Houses Association.

# UK NEWS

## Security Pacific closes London-based venture arm

By Charles Batchelor

SECURITY PACIFIC, the Californian bank, has closed Security Pacific Hoare Govett Equity Ventures, its profitable London-based venture capital arm, as part of its retreat from international business.

The closure has come with Equity Ventures half way towards raising a £150m venture capital fund – £30m of which would have come from Security Pacific itself – in Europe and the US. Fund-raising has been halted.

The decision to close formed part of Security Pacific's review of its operations worldwide. It was made even though Equity Ventures made a profit of £14m last year.

Mr Peter Voss, president of Security Pacific Hoare Govett Group, said: "This was an excellent performance."

Equity Ventures had a team of four executives headed by Mr Bert Wiegman.

It had made 12 investments, mostly in management buy-outs and buy-ins, since it was set up in 1987, although four were sold or floated on the stock market.

The remaining portfolio of eight companies will be handed over for monitoring to Security Pacific Venture Capital, the bank's main US-based venture capital arm, which has one staff member based in London.

Security Pacific will provide the eight companies with any additional funds which have been agreed, Mr Voss said. But it will gradually attempt to dispose of its holdings and will not make new investments.

It can expect offers from other UK-based venture capital companies for its holdings in the eight.

Although Security Pacific's decision to withdraw from venture capital in the UK reflects its own internal difficulties, it also forms part of a more general retrenchment in the industry.

Several big US organisations attracted by the large management buy-outs of two years ago have withdrawn or scaled down their operations.

Some smaller UK venture capital funds are expected to withdraw over the next few years.

UK ECONOMY

## SIB cannot force Fimbra to merge

By John Authers

SIR David Walker, chairman of the Securities and Investments Board, has ruled out an enforced merger between Fimbra, the troubled City of London watchdog, and other self-regulatory authorities.

Speaking to the annual conference of the Institute of Insurance Brokers at Bournemouth, on Saturday, he said the SIB did not have the powers to enforce such a merger.

"To do so would be quite inconsistent with self-regulation," he said. Sir David's own proposed solution to Fimbra's difficulties was to seek funds from the providers, mostly life insurance companies, for whom most Fimbra members provide a channel.

He saw "little prospect" of a majority of members of Lautro, which represents life assurance and unit trust companies, and Imro, representing investment managers, voting to merge with Fimbra.

Fimbra, which represents financial intermediaries and brokers, was revealed in a leaked letter earlier this month to be in indirect danger of insolvency. It has called for a restructuring of self-regulatory organisations, including the Imro and Lautro.

Sir David said Fimbra's difficulties had been "exaggerated in much public comment in recent days".

Fimbra said yesterday: "Obviously we welcome the fact that Sir David has addressed the problems that our chairman has raised with the government."

However, Sir David's interpretation of his role appears to differ from the version previously put forward by Fimbra. Mr Godfrey Jillings, Fimbra's chief executive, has called on the SIB to "take leadership" on restructuring investor protection and financial regulation.

The Department of Trade and Industry said yesterday that the SIB was responsible for financial self-regulatory organisations, including Fimbra. This responsibility includes the day-to-day running of the investor compensation schemes, according to the DTI.

Mr John Redwood, the DTI minister responsible, has made it clear that he would not stand in the way of any mergers between the organisations.

● Barclays, the UK's largest clearing bank, is preparing to announce plans for large scale staff cuts, writes David Lascelles.

Sir John Quinton, the chairman, says in an interview with the Financial Times published today that he will give details of the plans when he announces Barclays' results on February 28. He said the cuts would involve "several thousand people" out of Barclays' total workforce of 115,000.

Barclays is the only one of the Big Four clearers which has yet to put forward detailed plans for reducing its staff costs. The others, NatWest, Lloyds and Midland, have already announced cuts totalling more than 10,000 jobs phased over a period of up to five years. Midland has begun implementing its plans with the elimination of 900 jobs.

The banks hope to achieve most of the cuts through voluntary redundancy and natural wastage. All the UK clearers face heavy pressures to become more efficient in the face of recession and intensifying competition.

Sir John played down any expectations in the market for a substantial dividend increase this year. In the past, Barclays has had a policy of raising its dividend by 5 per cent a year in real terms.

Sir John said this should not be viewed as an annual commitment but as an average "over a period". It was important for banks not to pay dividends they could not afford because that would undermine the confidence of depositors.

Analysts have been forecasting an increase in Barclays' dividend of between 8 and 15 per cent.

Profits are expected to be hit by more than £1bn of bad debts in the UK because of the recession, though the overall result may be higher than 1989 because Barclays wrote off a large part of its Third World debt that year.

Monday Profile, Page 32; Observer, Page 12

## Directors' pay out of tune with performance

By Della Bradshaw

THE PAY rises awarded to the top directors of small British companies still bear little relation to company performance, according to a survey from the Incomes Data Services' Top Pay Unit, published today.

With more than half of the directors receiving pay rises higher than the increase in company pre-tax profits, the awards fly in the face of moves by the Institute of Directors and others to try to bring boardroom pay rises in line with company performance.

The authors of the survey blame the apparent arbitrariness in remuneration on high pay rises awarded to directors of Britain's blue-chip companies.

"If top company directors' pay, which is subject to greater public scrutiny and monitored by non-executive directors, does not follow strict rules, then there is little reason to expect more rigour among the smaller firms," the survey says.

The 60 companies studied, all from the Unlisted Securities Market, had an average turnover of £15m in the year ending between January and July 1990, and paid their top directors an average of £73,500. Of the 60 directors, only five received increases within 5 percentage points of the rise in pre-tax profits, and only 23 per cent were within 15 percentage points.

## Independent television opposes EC work plan

By John Gapper, Labour Editor

INDEPENDENT television companies said yesterday that European proposals to restrict working hours to ensure health and safety of employees could lead to widespread disruption of programme-making in Britain.

The Independent Television Association said a draft directive on working time, plus amendments to be discussed today in the European Parliament, could reverse the reform of work agreements over the past three years.

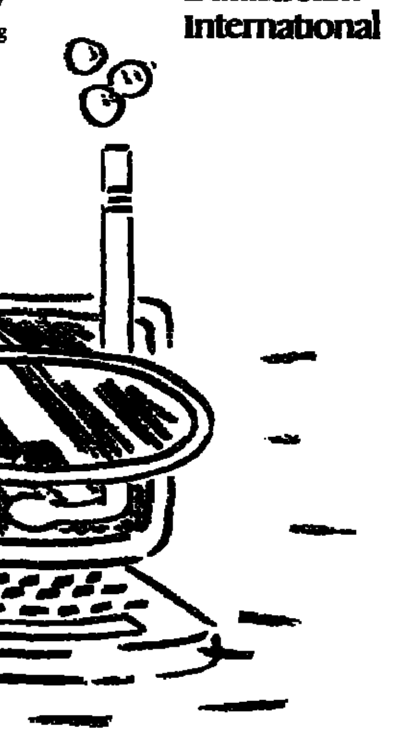
In one of the strongest reactions to the European draft directive which is also opposed by the government, the ITVA said it would help unions resist flexible working patterns.

Mr Mike Chattin, ITVA industrial relations adviser, said the European restrictions if applied in full would disrupt news and current affairs programmes and could lead to some drama productions being cancelled.

Among the provisions in the directive to which the ITVA objects, are an overall limit of 96 hours worked in any 14 days and a ban on employees working a day shift immediately following a night shift.

The directive would also enforce a statutory minimum rest period of 11 consecutive hours in any 24. The old national agreements allowed workers to be rostered for up to 14 hours without overtime payments being made.





## CONTRACTS & TENDERS

### INVITATION FOR BIDS (IFB)

Date of Issuance : 1.3.1991
Loan No : 2602 TU
Order No : 1SB/RH-3

1. The TURKISH ELECTRICITY AUTHORITY (TEK) has received a loan from the Power System Operation Assistance Project Fund of the World Bank (Loan No: 2602-TU) in various currencies towards the cost of Thermal Power Plants Rehabilitation Project and it is intended that part of the proceeds of this loan will be applied to eligible payments under the Contract(s) for which this Invitation for Bids issues.
2. The TURKISH ELECTRICITY AUTHORITY (TEK) now invites sealed Bids from eligible Bidders for the supply of Test and Control Equipment.
3. Interested eligible Bidders may obtain further information from and inspect the Bidding Documents at the Office of:

TURKISH ELECTRICITY AUTHORITY
General Management
Isletme ve Bakim Dairesi Baskanligi
Santrallar Isletme ve Bakim Muduriugu
Inonu Bulvari No: 27 Kat: 14
Bahcelievler - Son Durak
Ankara - TURKEY

TURKISH ELECTRICITY AUTHORITY
General Management
TICARI ISLER DAIRESI/BASKANLIGI
ITHALAT MUDURLUGU
Inönü Bulvari No: 27 Kat: 1
Bahcelievler - Son Durak
Ankara - TURKEY
Phone: (90) (4) 2126915/3254
Telex: 42245 tek tr
Fax: 90-4-2138870

4. A complete set of Bidding Documents may be purchased by any interested eligible Bidder on the submission of a written application to the

TURKISH ELECTRICITY AUTHORITY
General Management
Ticari Isler Dairesi, Baskanligi
Inönü Bulvari No: 27 Kat: 1
Bahcelievler - Son Durak
Ankara - TURKEY

and upon payment of a non-refundable fee of 100 US Dollars or 300.000 TL at the following address:

TURKISH ELECTRICITY AUTHORITY
General Management
Muhasebe Dairesi Baskanligi
Inönü Bulvari No: 27 Kat: 4
Bahcelievler
TURKEY

Those Bids submitted by the Bidders who did not purchase the Bidding Document shall be rejected.

5. All Bids must be accompanied by a Bid Security of not less than 3% (three percent) of the bid price and must be delivered to the following address:

TURKISH ELECTRICITY AUTHORITY
General Management
Ticari Isler Daire, Baskanligi
Inönü Bulvari No: 27 Kat: 1
Bahcelievler - Son Durak
Ankara - TURKEY

on or before 12.00 hours on 11.4.1991 and Bids will be opened at the below mentioned address at 14.00 hours on the same date.

Bids will be accepted for the total quantity but no bid will be for any lesser number of units than specified.

6. Bids will be opened in the presence of Bidders' representatives who choose to attend the following address:

TURKISH ELECTRICITY AUTHORITY
General Management
Ihale ve Satin Alma
Komisyonu Baskanligi
Inönü Bulvari No: 27
A Blok Zemin Kat
Bahcelievler - Son Durak
Ankara - TURKEY

### LANCASHIRE COUNTY COUNCIL
### SUPPLY OF ELECTRICY 1,4MW LOAD

Applications are invited for the supply of electricity to County Hall in Preston, Lancashire. The Contract to commence 1 April, 1991.

Further details on Contract duration and load profile for this Central Administrative Office can be obtained on request in writing from:

Energy Management Group, Department of Property Services, PO Box 26, County Hall, Preston, Lancashire PR1 8RE

Offers to be returned not later than 10.30 am on 28 February, 1991.

### WANDSWORTH BOROUGH COUNCIL
### Installation of heating and hot water systems at Patmore Estate, SW8

Contractors wishing to be considered for selection to tender for the installation of full central heating with domestic hot water at the Patmore Estate, Battersea, London SW8 should submit names to the Chief Executive and Director of Administration, Room 111, The Town Hall, Wandsworth High Street, London SW18 2PU, quoting reference DH/301 by 8th March 1991.

The heating works will be carried out in phases and the initial phase will cover approximately 300 dwellings. It is anticipated that tenders will be invited from selected Contractors in August 1991 with an anticipated start on site by March 1992.

All applicants must provide the following information:-

a) The full name of the company wishing to be considered to tender;
b) details of labour force, plant and technical and supervisory staff;
c) names and addresses of three technical referees for whom similar work has recently been completed;
d) a copy of the Company's latest audited accounts which should be not more than 18 months old;
e) the name and address of the Company's banker; and
f) if a contractor is shortlisted for tender, they will be required to submit a copy of their company's policy statement produced in accordance with Section 2(3) of the Health and Safety at Work Act 1974 and complete the Council's questionnaire on Health and Safety and Equal Opportunities.

Applicants should refer only to the above-mentioned scheme in their reply and must not incorporate replies to other advertisements placed by Wandsworth Borough Council. Late applications will not be considered.

The Housing Department's Services Division will provide the necessary professional services for these works under the direction of Mr R. J. Sheppard, F.R.I.C.S., F.I.H., Director of Housing, 17-27 Garratt Lane, Wandsworth, London SW18 4AF

G.K. Jones
Chief Executive and
Director of Administration

### WORLD BANK
### MAIN COMPLEX REHABILITATION PROJECT
### REQUEST FOR EXPRESSIONS OF INTEREST
### CURTAIN WAL (RFTP NO. 91-246)

The World Bank is soliciting expressions of interest from firms wishing to participate in a two-step, sealed bid procurement in order to select a contractor to furnish and install the exterior wall of the new Main Complex building in Washington, D.C. Contract award is scheduled for May 1991.

The building will be 13 stories above grade. The area for the skin is approximately 200,000 square feet and will be accomplished in two phases; 40% included in the first installation phase, which is scheduled to start in April 1992 and 60% in the second installation phase, which is scheduled to start in October 1994. The exterior wall will consist of 80% aluminum and 20% precast concrete, both with glazing. There will be seven custom made skin types required to be developed and manufactured for this procurement. Mockup testing will be required prior to manufacture.

Requests For Technical Proposals (RFTP's) will be sent to interested firms from member countries of the World Bank, from Switzerland and from Taiwan, China. A charge of US$ 500.00 will be made for each RFTP and associated drawings. Payment may be made by certified check or similarly secured instrument, payable to the International Bank for Reconstruction and Development, at the Material Management Division, Room L-4500, 1990 K Street, NW, Washington, D.C., 20433, Attn: Mr. Arthur Bjorlykke. RFTP's are expected to be available by March 25, 1991.

Contractors must be currently involved in exterior wall construction and be able to demonstrate the ability to obtain minimum bonding of US$ 10 million.

Following evaluation of technical proposals, submission of which is scheduled for April 15, 1991, selected offerors only will be sent an Invitation For Bid (IFB) with a fixed price contract awarded to the successful firm. Offerors will be required to bid on their technical proposals, as accepted by the World Bank.

For additional information, contact Mr. Arthur Bjorlykke at (202) 473 1118 or FAX No (202) 676 9282.

The World Bank reserves the right to reject any and all somittals without recourse.

## LEGAL NOTICES

### DUDLEY STEEL SERVICES LIMITED

Registered number: 1974756
Nature of business
Steel Stockholders
Trade classification: 06
Date of appointment of joint administrative receivers:
1 February 1991
Name of person appointing the joint administrative receivers:
Midland Bank Plc
JOHN FREDERICK POWELL and IAN NAPIER CARRUTHERS
Joint Administrative Receivers
(Office holder nos 249 and 814) of Cork Gully, 43, Temple Row, Birmingham, B2 5JT

### Worlaby Estates Plc

Registered No: 2320034
Trading name: Worlaby Estates
Trade classification.
Name and address of joint administrative receivers:
David John Stokes and C J Hughes
Cork Gully
1 East Parade
Sheffield S1 2ET
Office holder number 2682 and 2041
Date of appointment: 5 February 1991
Name of appointer: Midland Bank Plc

### RE: PANDELIS (LEON) CHRISTOS LEMOS DECEASED

Pursuant to the Trustee Act 1925 (as amended) NOTICE IS HEREBY GIVEN that any person having a claim against or an interest in the Estate of Pandelis (Leon) Christos Lemos late of 34 Harilaou Trikoupi Street, Kifisia, Greece, and L.C. Lemos Company Limited of 8 Rathbone Place, London W1P 1DE, who died on the 3rd December 1989, Letters of Administration in whose Estate were issued in favour of Christos Lemos on the 29th November 1990, are required to send written particulars to the undersigned Mrs. J.A. Abrey by the 22nd day of April 1991 after which date the Administrator will distribute the Estate of the said deceased amongst the persons entitled thereto, having regard only to the claims and interests of which he should then have had notice, and will not as respects the property so distributed be liable to any person whose claim or interest he shall not have had notice.

NOTICE IS ALSO HEREBY GIVEN that any person owing any sum or sums to the late Mr. Lemos should also send written particulars to Mrs. J.A. Abrey at the address below.

DATED this Sixth day of February 1991

Mrs J.A. ABREY
WITHERS (SOLICITORS)
20 ESSEX STREET
LONDON WC2R 3AL.

Solicitor for the said Administrator.

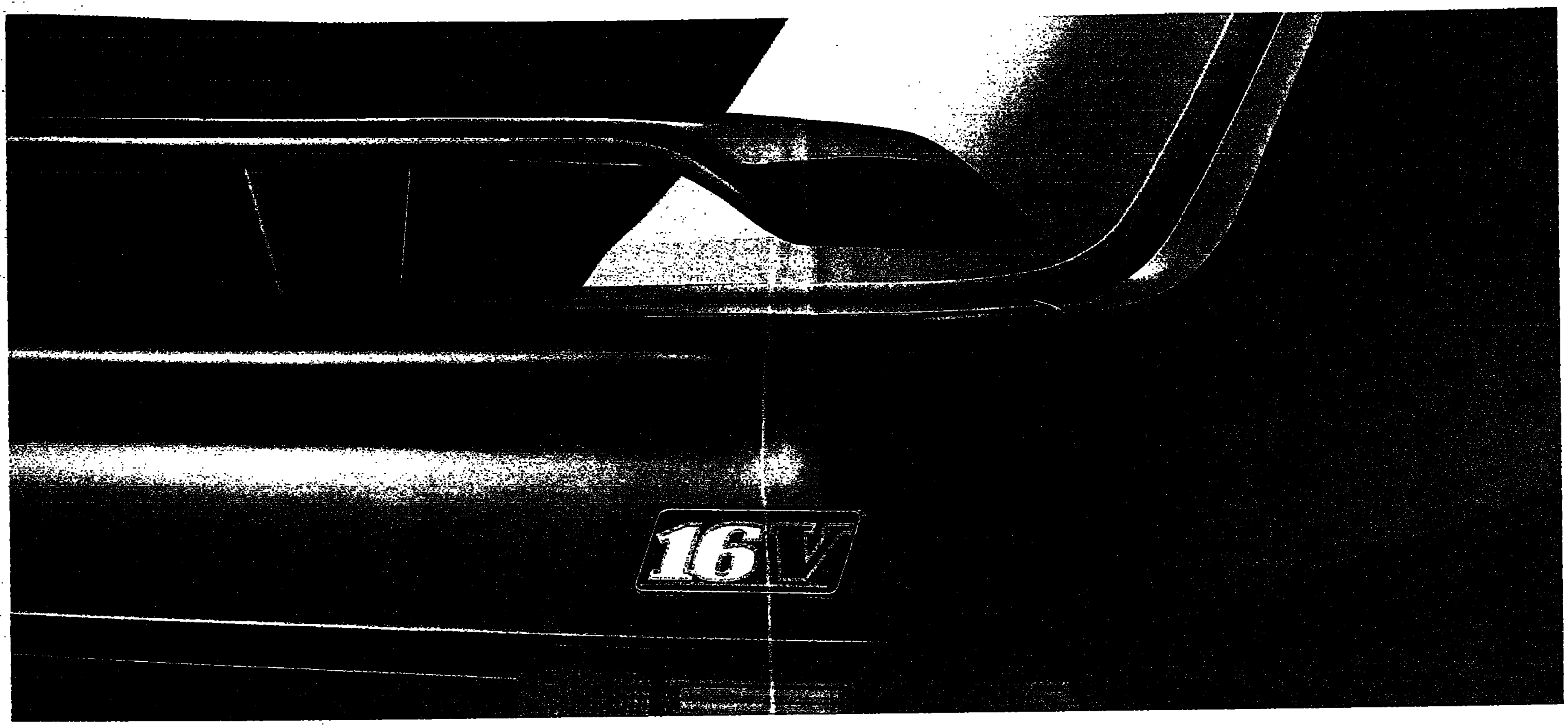


## RENTALS



## CLUBS

هكذا من الاصل




# 16 into 19 does go.

Whatever else is divided, opinions are not. 16 valves under the bonnet of the Renault 19 create probably the most refined performance car in its class. The performance? Its 1764cc engine delivers 137 bhp and a top speed of 132 mph.

And the refinement? Power assisted steering is fitted as standard, as is an electric sunroof. The sports steering wheel is height adjustable. The racing style driver's seat adjusts to suit the driver's height and provide lumbar support. And anti-lock brakes and leather upholstery are options. So the Renault 19 16-Valve out-performs the competition, comfortably. And, thanks to the standard catalytic converter, cleanly too.

Whether 3-door hatchback or 4-door saloon, detailed thought has also gone into the details. Like electronic digital stereo, the electric front windows, electric door mirrors, 60/40 split rear seat, and 'Plip' remote control central locking.

At just £11,995 (excluding on-the-road costs*), the Renault 19 16-Valve is a great deal — and a great deal less than any of its competitors.

But of course, there's a great deal more to the Renault 19 range than just the 16-Valve. There are also four more engines. The 1.7 which has a top speed of 115 mph. The 1.9 diesel which returns 61.4 mpg at 56 mph. And two 1.4 versions including the new 80 bhp 'Energy' unit fitted in the new 19 GTS-X — a model with many of the features of the 16-Valve, but starting from only £8,510 (excluding on-the-road costs**). Naturally all the petrol versions run on unleaded fuel and both the TXE and TSE have fuel injection and catalytic converter fitted as standard.

Though our standards are high, our prices aren't. The Prima, our least expensive model, starts at just £7,150 (excluding on-the-road costs†).

Finally a word or two on depreciation. The Renault 19 has one of the lowest figures of all in its class, backed up with an all model, 8 year anti-corrosion warranty: a first in its class. So if you are thinking of a new car, think very carefully about it. We have.

V9FTI081

To Renault Information Service, Freepost RG 1941, Newbury, RG13 3BR.
Please send me more information about the Renault 19 16-Valve.

Mr, Mrs, Miss, etc ______ Initials ______ Surname ______

Address ______

______ Postcode ______

Town/County ______ Telephone ______

Present car make (eg Renault) ______ Year of registration ______

Present car model (eg 19 16-Valve) ______ Month/Year of expected replacement ______ Age (if under 18) ______

For more information telephone Renault Freephone 0800 525150

THERE'S MORE TO LIFE WITH RENAULT


RENAULT 19. THINK ABOUT IT. WE HAVE.

All Renault 19s have a 12 month unlimited mileage warranty with free RAC membership plus an 8 year anti-corrosion warranty. *Renault 19 16-Valve 3-dr or 4-dr inc. est. on-the-road costs £12,395. **Renault 19 GTS-X 3-dr inc. est. on-the-road costs £8,910. †Renault 19 Prima 3-dr inc. est. on-the-road costs £7,550
Prices correct at time of going to press. Renault UK Ltd., Western Avenue, London W3 0RZ. RENAULT recommend elf lubricants.

## UK NEWS – THE RECESSION

# Machine tools ground down below tolerance

**Andrew Baxter** finds the survivors of a traditional sector of industry struggling to outlive the downturn

AS Britain's depleted machine tool industry grinds through its severest domestic recession, hard-pressed manufacturers have given last week's cut of ½ percentage point in interest rates a predictable reception – half a cheer.

After the job cuts, closures and restructuring of the 1980s consigned many famous British names to history, the surviving makers of these basic tools of manufacture, often seen as the best barometer for identifying what is happening in industry, are trying hard to sound optimistic.

Yet there is little mistaking the intense irritation of the sector – the seventh biggest machine-tool industry in the world with annual sales of about £1bn – as the recession punches holes in its home market.

Mr Malcolm Taylor, managing director of Bridgeport Machines of Leicester, the UK's biggest producer, sums up the industry's frustration. "I feel bitter about this economic cycle," he says.

"Lawson took the leash off taxes, which led to a housing and property boom. Now the process has been reversed, but industry has had to foot the bill."

For Bridgeport, a cut of ½ point in interest rates is a step in the right direction, but it will take a further reduction of two percentage points before UK business recovers significantly.

The industry finds its current woes particularly galling as they follow two years of strong demand and increased productivity in 1988 and 1989, in spite of the steep rise then in interest rates.

The crucial difference in 1990, producers say, was a sharp drop in confidence among UK customers in manufacturing. In some sectors, business is down 40 per cent compared with a year ago.

Mr Taylor and industry officials cannot remember a recession as steep or sudden as the present one. Last April's Metcut 90 exhibition in Birmingham went surprisingly well, says Mr John Nosworthy, director-general of the Machine Tools Technologies Association (MTTA). But now, the outlook for companies selling into the UK market is "ghastly".

Fortunately, prospects overseas are much more encouraging. Exports, particularly to Germany, the emerging markets of eastern Europe, and the far east, are rising fast. The larger companies have worked hard over the past five years to increase the proportion of their sales exported.

According to MTTA figures to be officially published soon, the industry's exports rose by 23 per cent last year to £489m while imports edged up 1 per cent to £523m.

For the first time in a decade, the industry had a trade surplus with the European Community, its biggest market, after boosting its exports to the EC by 37.5 per cent to £236.4m.

However, Mr Taylor worries that the government's exchange-rate policy has put a new obstacle in the path of the industry's exports. He is particularly upset by the pound's "ridiculously" high level in the exchange rate mechanism of the European Monetary System.

Mr Taylor is not alone in the industry in believing that the high value of the pound threatens to cancel out the productivity gains achieved by restructuring in the mid-1980s. At US-owned Bridgeport, the Leicester factory floor was virtually rebuilt in the 1980s to help ensure long-term competitiveness against its powerful, well-organised Continental and Japanese rivals.

The 200 elderly machines formerly used to produce Bridgeport's machine tools have been replaced by 17 precision "machining centres" – large, complex versions of the machine tools they produce.

The company's product lines at Leicester and Bridlington, Humberside – including the classic Bridgeport turret-milling machine first produced in 1938 – have been modernised. Greater emphasis has been placed on precision-controlled machines.

Even so, in spite of some clever marketing ploys in the UK to keep sales moving, Mr Taylor was forced to declare 160 redundancies at Bridgeport's two UK plants late last year, reducing the UK workforce to 600. Further job cuts cannot be ruled out, he warns.

Mr Taylor's refrain is echoed at Wadkin, the largest UK producer of woodwork machinery, which has one of its seven plants in Leicester. Mr Tony Wren, chief executive of Wadkin Leicester, says the company was "very old-fashioned, typically British" before it was taken over by the diversified Derby-based Thomas Robinson Group in 1986.

Since then, the entire product range has been redesigned, and £5.5m of investment at Leicester has raised productivity and product quality. From losing £1.25m a year in 1986, the Leicester plant is now "doing very nicely".

Locked in a worldwide battle with Weinig, of Germany, Mr Wren says that in matters of productivity and machine specifications: "We like to think we've actually got our noses in front of the Germans."

Even so, the 70-year-old Leicester factory might not have survived the last few months without Wadkin's success on the Continent, where it has quadrupled sales of its moulding machines over the past three years.

As a supplier of machinery to joinery companies, it has been hit indirectly by the malaise in the UK housing market. Overseas, the pound's 10 per cent rise against the dollar at the end of 1989 "crucified" Wadkin in the US market, and this year, with the pound hovering around $2, US sales are still "very difficult", Mr Wren says.

Wadkin recovered last year with orders from eastern Europe, but is deeply disenchanted with the UK banks' unwillingness to finance the deals with export credits. Mr Allan Gray, Wadkin group chief executive, believes this gives a further advantage to the company's German and Italian competitors.

Mr Gray stresses the industry is not looking for cash from the government, but would like active encouragement to expand, based on a clear strategy for manufacturing. "Now is the time to say, 'Let's stop, and do something with what's left of the British machine tool industry'."

In spite of the setbacks of the past few months, the industry is more angry than despondent and Mr Wren foresees the beginnings of an upturn in the UK by the last quarter of this year.

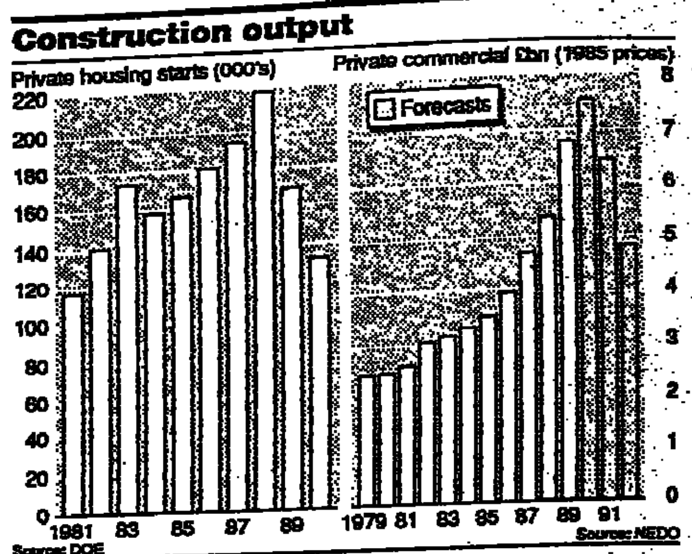
He is holding on to workers to ensure that Wadkin does not miss out because of future shortages of skilled labour.

Mr Taylor also refuses to be downhearted. "We're still making plans, because we want to be in this industry in two years' time," he says.

"You can't stop investing for two years, because you are then giving that time to the Germans and Japanese."

Alan Harper

Malcolm Taylor: "We're still making plans, because we want to be in this industry in two years' time"




# The going is set to remain tough for construction

**The level of pain in the industry is still rising as more and more companies are forced into receivership, writes Andrew Taylor**

THE pain being felt in Britain's deeply depressed construction industry is continuing to worsen as more companies are forced into receivership.

On Wednesday, administrative receivers were appointed to four out of five contracting subsidiaries of Elliott Group, a large, privately owned contracting and property development company based in Bishops Stortford, Hertfordshire.

Two days earlier Trade Indemnity, which insures companies against bad debts and other credit risks, disclosed that building and construction companies' receiverships and bankruptcies had doubled last year to account for almost a third of all business failures.

Other builders seem likely to follow them with no sign of a thaw in the freeze which has gripped the UK residential and commercial property market – in spite of interest rate cuts last autumn and again last Wednesday.

According to Crest Nicholson and Bryant, two medium-sized housebuilders operating in southern and central England, sales last month were no higher than in January last year. The companies, which reported a sharp fall in profits, said the half-percentage-point reduction in bank base rates announced on Wednesday was "too little, too late".

Housebuilders which had hoped for a small recovery in sales this spring are becoming concerned that worries about sharply rising unemployment will continue to deter some people from buying even when interest rates come down.

Crest, which made a £3m loss in its housing division during the 12 months to the end of October, was forced to dip into its reserves to pay a maintained dividend.

Bryant's pretax profits fell by more than a third to £9.3m during the six months to the end of November. Mr Andrew Mackenzie, the group's managing director, said the market would not start to recover until interest rates came down by another 2 percentage points.

Mr Amarjit Chhina, building analyst with stockbrokers Barclays de Zoete Wedd, said: "If well-managed, lowly borrowed companies like these are expressing concern then you have to worry about the future for much more highly geared housebuilders and commercial property developers which face a very tough year indeed."

The commercial property market since November 1989 has fallen sharply, with disastrous consequences for many construction companies which had developed housebuilding and commercial property businesses alongside their traditional contracting operations.

Overbuilding in the late 1980s has left too many developments chasing too few tenants and purchasers. Investment institutions, which previously bought large amounts of commercial property, have gone on a buying strike.

Some companies which had borrowed large sums to finance developments have found themselves unable to sell completed properties at a price that covers the original debt and have been forced into receivership. In other cases, property sales have failed to take place, squeezing earnings further.

Lower interest rates will make commercial property yields comparatively more attractive but will not overcome the sector's fundamental weakness of oversupply. The National Economic Development Office has forecast that commercial construction output will fall by 15 per cent this year and by a further quarter in 1992. This has been having a knock-on effect on contracting, as work on existing schemes is completed and new schemes which had been expected to start are postponed. Builders facing a shortage of work have been cutting their prices.

Increased competition has hit margins even in areas such as road building, where investment has been increasing. Contractors say companies which in the 1980s had built up their private commercial activities were now switching back to civil engineering in order to bolster flagging order books.

The effect on profits of taking cut-price work will not be felt immediately but could leave a legacy of problems.

The likelihood is that there will be a lot more companies going into receivership even if interest rates are further reduced and a the housing market starts on a slow recovery by the end of the year. The consensus among British construction companies is that this year will be just as tough as last year. For some it may be even tougher.

CBI/FT DISTRIBUTIVE TRADES SURVEY

# Declining demand expected to boost excessive stockbuilding

RETAILERS have reported the first year-on-year fall in sales volumes since the Confederation of British Industry/Financial Times survey of distributive trades began in 1983.

Business is expected to worsen further this month as retailers struggle to cope with scant and declining annual sales volumes.

Booksellers, stationers and sellers of footwear and leather goods have suffered the sharpest falls. The strongest sales growth was reported by grocers and newsagents.

Distributors covered by the survey – the retailing, wholesaling and motor trades – reported a marked fall in the volume of sales in December compared with a year ago. Of the 557 respondents, 23 per cent reported that sales volumes were up while 53 per cent reported that they were down.

The difference between the two, which gives a guide to the trend, was a negative balance of 30 per cent. Among the 305 retailers, a negative balance of 7 per cent reported lower sales volumes than a year earlier.

Speedy declines in volumes and confidence as Britain has slipped into recession are shown by the charts below.

Trading conditions for the distributive trades have worsened quickly. The negative balance was 17 per cent in December and 9 per cent in November. The sharp slowdown in economic activity began to show in August in official data for output, retail sales and monetary growth. In September, there was still a positive balance of 17 per cent of distributors reporting year-on-year sales growth.

Now, a balance of a negative 33 per cent is expecting to face sales volumes next month lower than a year before. Levels of demand are slipping faster in the wholesale and motor trades than in retailing, the survey shows.

For the ninth survey running, distributors have reported placing lower volumes of orders with suppliers than in the corresponding month a year before. A negative balance of 42 per cent of distributors is expecting lower order volumes in February 1991 than in February 1990.

Volumes of orders in January fell in all three sectors compared with the same month a year ago, but again showed the retail trade holding up better than wholesale or motor trades. The wholesale sector reported that the sharpest falls in orders had been for industrial materials and goods handled by builders' merchants.

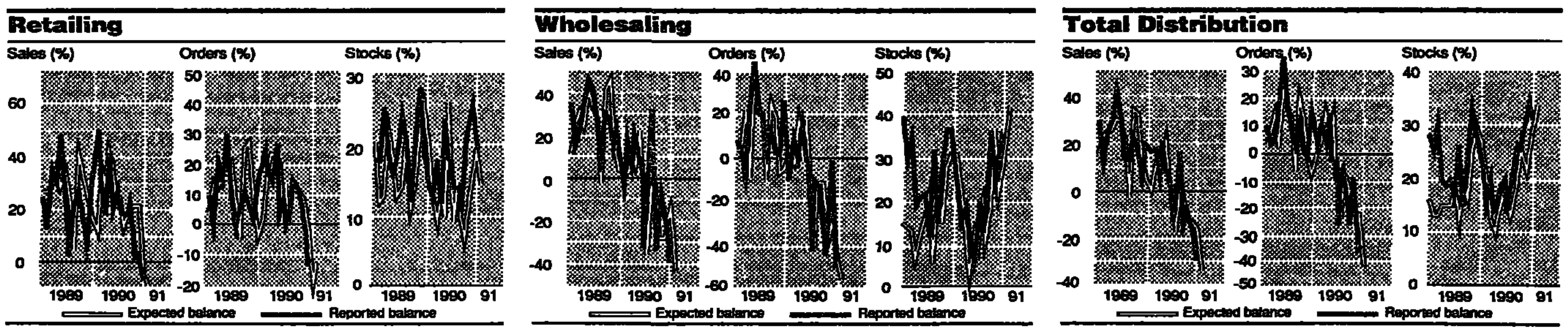
That may suggest that today's provisional retail sales figures for January may show more buoyancy than the consensus market forecast – for a decline of 1.2 per cent – suggests.

"The volume of sales for the time of year improved slightly in January, as indicated by a balance of a negative 24 per cent of distributors," the survey says. That compares with a negative 29 per cent in November.

However, February is expected to be another "unsatisfactory" month with a negative balance of 34 per cent expecting poor sales for that time of year.

A positive balance of 36 per cent reports that stock levels are still "too high" as sales volumes decline. Slack demand is expected to result in additional stockbuilding.

**Rachel Johnson**




RETAILING

## Independent clothes shops less hard hit

CLOTHING retailers will face a gloomy time this year as they struggle to combat falling sales and profits, according to a survey by Verdict, the retail consultancy. Some will fail to survive the recession, it adds.

But the report suggests that small independent retailers are proving more responsive to the tough market conditions that the multiple chains and are outperforming them in many sectors.

Against a background of fragile demand and rising cost pressures, the big chains have tried to play safe by stocking similar, unimaginative lines and this has created a gap for smaller entrepreneurial businesses which often offer greater flair, the report says.

This conclusion is supported by Mr Christopher Gurteen, chairman of the Imbex international men's and boys' wear exhibition, who says independent chains represent "the way forward" for menswear retailers. He said the larger menswear stores had lost touch with the man in the street, while many independent retailers responded better to customer demands.

**By John Thornhill**

*Verdict on Clothing Retailers. Verdict Research, 112 High Holborn, London, WC1V 6JS. £595.*

# Mortgage debts make an Englishman surrender his 'castle'

**The Council of Mortgage Lenders announced last week that 43,890 houses were repossessed in 1990, the highest number since records began in 1979, and that mortgage arrears had risen sharply. A growing trend is for householders to surrender their homes in an attempt to avoid compulsory repossession. Jimmy Burns talks to one man who handed in his keys**

MR PETER SAWYER, aged 25, is a child of the Thatcher era who feels orphaned in the harsher financial world of Britain in recession.

During the Thatcher years, he had done well. Straight after school he began working for an estate agent on a commission-based salary where within two years he was earning about £20,000 a year. In 1987 at the height of the property boom he earned a further £18,000 by buying two flats himself and reselling them within a few months.

Part of the £18,000 went on "enjoying myself", the rest went on deposit. The savings allowed him in July 1989 to fulfil his childhood ambition of buying his own home for himself and his girlfriend: a remodernised semi-detached bungalow in Billericay, Essex.

More recently, a combination of high interest rates, low turnover in the housing market and a drop in house prices has turned this one-time property speculator into a property victim. Although he handed in his house keys to the mortgage lender last September, to avoid what he expected would be inevitable compulsory repossession, Mr Sawyer still faces financial difficulties.

The housing decline has meant lower commissions at the property consultancy where he now works, and increasing difficulty in paying off his overdraft.

When Mr Sawyer first saw the bungalow, it was on the market for £84,500. He bought it for £80,000, with £69,000 covered by a low-start, 25-year endowment mortgage calculated on the basis of three times his then salary. The low-start meant that full monthly payments would be deferred, rising gradually in the course of the first five years.

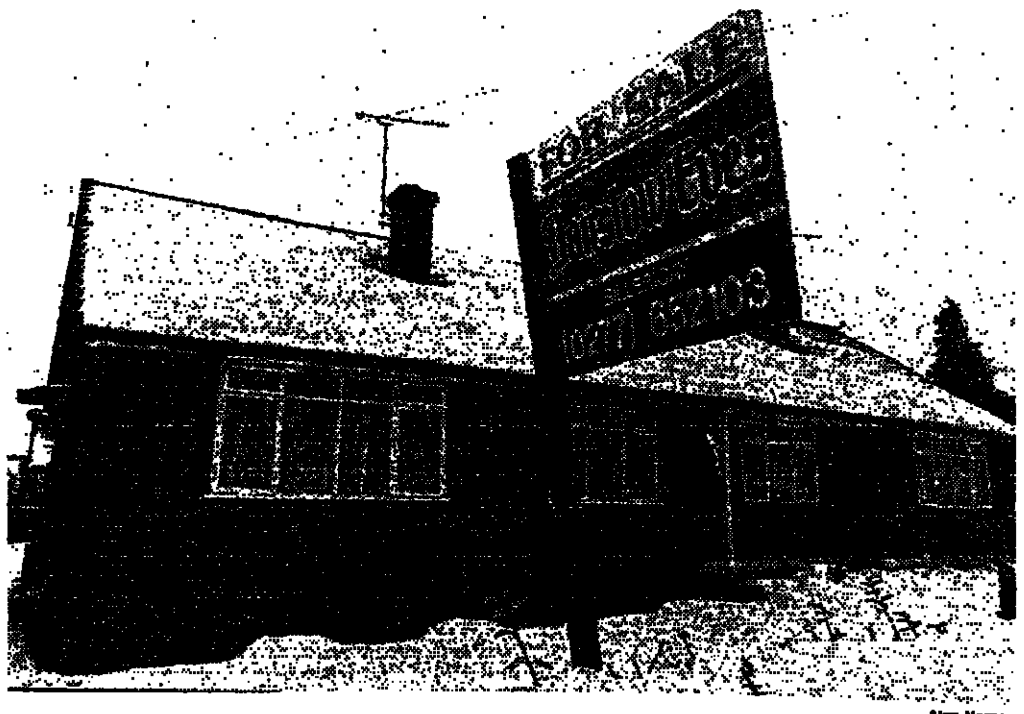
"I went to see one of the better known estate agents locally . . . they said, 'Why don't you give our mortgage broker a ring?', and the next thing I knew he was ringing me as a potential client and pushing the scheme . . . I was attracted to it because it was the cheapest possible monthly repayment on the amount of money I was prepared to borrow."

Mr Sawyer moved in with his pregnant girlfriend and began improving the bungalow with enthusiasm. In the first few weeks more than £3,000 went on furniture and redecoration, including Laura Ashley wallpaper with matching curtains.

At the end of September 1989, Mr Sawyer was informed that an initial 1 per cent discount on the interest rate payable on his mortgage had ceased. The new monthly payment, after adjustment of the 5 per cent deferral, would be £515.50.

Rising interest rates and the cost of supporting the child meant not quite poverty but certainly adapting to a lifestyle Mr Sawyer had not been accustomed to in the golden Thatcher years.

"Perhaps we both had too much too early . . . several holidays a year, two cars, portable phone, clothes . . . then suddenly we found we couldn't go out because we couldn't afford it . . . the holidays went and all we could buy were the basics in the local store."



Alan Harper

Shattered dream: the bungalow that Peter Sawyer has had to give up

The crunch came last July when a letter arrived from Mr Sawyer's lender, Hambros Bank, reminding him that under a special clause contained in the mortgage contract, a revaluation of the bungalow was required.

Revaluation downwards (from £78,000 to £77,000) meant that the amount outstanding on Mr Sawyer's mortgage was greater than 90 per cent of the current revaluation and was therefore, under the conditions drawn up 12 months earlier, no longer eligible to be conducted on a deferral scheme basis.

This meant that monthly payments increased from £572.72 to about £975 per month.

"My reaction was one of real shock . . . I wrote to the bank, explained our situation . . . another letter . . . I phoned, pleading. I explained about the baby and that it was only short term, that in six months time we'd get a nanny and that my girlfriend could return to work and we'd be able to afford it . . . you don't want to leave the house empty if we are prepared to pay as much as we can possibly afford, I argued." The lender was sympathetic initially, offering a reduced monthly payment of £700 for a three-month period, but the arrears went on building up and the correspondence and telephone conversations resumed.

"It got to the point when the bank didn't want to talk. They said, 'Here are the facts and there is nothing we can do about it'. And we got to the stage of saying, 'What's the point of paying all that money just to live inside the house and do nothing else?'."

That is when he handed in the keys. The couple and their baby moved in with his girlfriend's mother.

By handing over the keys, he hoped to alleviate the emotional trauma of compulsory repossession.

The bungalow remains unsold, however, and losing it has not absolved Mr Sawyer from responsibility for the outstanding debt or the risk of being blacklisted by the financial community. He also runs the risk of forfeiting housing benefit in future because he has made himself homeless voluntarily.

Mr Sawyer's only compensation appears to be that he is not alone. As he puts it: "I know there are a lot of friends of mine in a similar situation although they don't admit it. They are just borrowing, borrowing, digging themselves into a deeper hole. It's a vicious circle all round really."

# THE WEEK AHEAD

## ECONOMICS

# Return to domestic fundamentals

THE LATEST news from Iraq and Kuwait will dominate the activity of the international financial markets this week. The oil price will be the first to respond to signs that Iraq is prepared to pull out of Kuwait.

If the peace does not materialise, the economic impact of the Gulf war, not the Gulf peace, will continue to drive sentiment and activity.

However, the news has prompted a return of attention to domestic economic fundamentals: the recessionary conditions in the US and UK and the impact of economic unification on Germany.

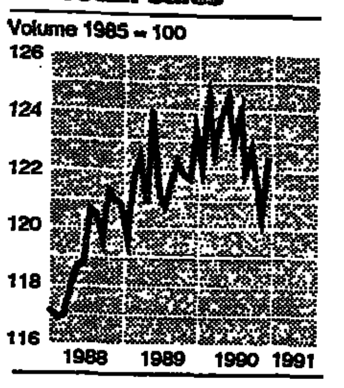
In Europe, attention will be fixed on Mr Theo Waigel, Germany's finance minister, who is due to present the German budget to cabinet on Wednesday.

The event will be crucial for all the European markets, who will have to judge whether interest rates have peaked or whether strong demand pressures following unification will force the Bundesbank to push them up again.

The budget will give the Bundesbank an indication of how flexible government will be towards tax increases at a time when estimates of the budget deficit for 1991 – around DM140bn – are looking increasingly rosy. However, specific tax measures are unlikely to be framed this week but reserved for a supplementary budget later this year.

**UK retail sales**

Volume 1985 = 100




Last week's cut in UK interest rates is likely to be justified by further evidence this week that the recession is to be longer and deeper than the authorities are so far admitting.

The most recent sets of sales data have been affected by the prolongation of the sales periods. But today's provisional figures will have been seasonally-adjusted for January sales and should show a fall compared to the December figure, which was propped up by pre-Christmas sales in shops.

Other notable events and statistics, with median market forecasts from MMS international, the financial research company, in brackets include:

**Today:**UK, public sector borrowing requirement (down £4.2bn), provisional retail sales for January (down 1.2 per cent), Confederation of British Industry/Financial Times survey of distributive trades. US, public holiday. Germany, import prices. France, current account. Japan, money supply (7.3 per cent)

**Tomorrow:**France, industrial production (down 0.7 per cent in December).

**Wednesday:**UK, monetary statistics M0 (annual 3.2 per cent), M4 (annual 11.1 per cent) M4 bank lending for January (£4.5bn), fourth quarter preliminary gross domestic product (down 0.9 per cent). US, consumer prices index for January (0.3 per cent), ex food and energy (0.4 per cent), housing starts and real earnings for January. Germany, finance minister Theo Waigel presents the 1991 budget to the cabinet.

*Thursday:*US, money supply data. Japan, capacity utilisation for January, trade balance for December. Canada, retail sales (down 0.4 per cent). Federal chairman Mr Alan Greenspan's half-year Humphrey Hawkins testimony before house banking committee, two- and five-year note auction.

**Friday:**US, Treasury budget ($1bn), bank credit and commercial and industrial loans for January. Canada, consumer prices index (month-on-month 1.5 per cent, year-on-year 5.7 per cent), wholesale trade, fourth quarter travel account. New Zealand, trade balance.

*During the week:* Germany, M3 (5.4 per cent). Japan, February wholesale prices index and trade balance.

**Rachel Johnson**

## PARLIAMENTARY DIARY

■ **Today**
**Commons:** Maintenance Enforcement Bill, Second Reading. Ministerial and Other Pensions and Salaries Bill, remaining stages. Opposed private business after 7pm.
*Lords:* Debate on Horse Racing. Question to Government on the removal of South African sanctions.
**Select Committee:** Public Accounts - subject, Staff appraisal. Witnesses: Mr J. Patterson, Director, Department for National Savings; Mr P. McMaster, Director-General Ordnance Survey; Mr E. Kemp, Second Permanent Secretary, Office of the Minister for the Civil Service (Room 16, 4.30pm).
■ **Tomorrow**
**Commons:** Opposition debate on "The Impact of the Poll Tax" and "The Impact of Government Policies on Manufacturing Industry"
**Lords:** Planning and Condensation Bill, Report Stage.
Select Committees: Trade and Industry - Subject, the British position on the Common Agricultural Policy. Witness: John Gummer MP, Minister for Agriculture, Fisheries and Food (Room 15, 3.30pm)
Committees on Opposed Private Bills: Heathrow Express Railway Bill (Room 5, 10.30am): London Underground Bill (Room 6, 11am)
■ **Wednesday**
**Commons:** *Criminal Justice Bill, Progress on remaining stages*
**Lords:** Debate on a no-fault system for medical injuries. Debate on problems facing the performing arts. Question to Government on provision for school libraries
**Select Committees:** *Foreign Affairs* - Subject, Gulf crisis. Witnesses: the Institute for Strategic Studies. (Room 15, 10.30am)
Trade and Industry - Subject, takeovers and mergers. Witnesses: DTI officials (Room 19, 10.45am)
*Defence - Subject, EH101* and Attack helicopters and the Trigat missile system. Witnesses: MOD officials (Room 16, 11am)
Energy - Subect, clean coal technology. Witnesses: Shell *UK Ltd and British Gas Plc* (Room 8, 11am)
Agriculture - Subject, Animals in transit. Witnesses: UK agriculture departments (Room 18, 3.45pm)
Health - Subject, Public expenditure. Witness: William Waldegrave MP, Health *Secretary (Grand Committee* Room, Westminster Hall, 4.15pm)
Home Affairs - Subject, Levy on horse racing. Witnesses: the Racegoers Club (Room 15, 4:30pm)
Public Accounts - Subject, Defence Ministry: Initiatives *in procurement. Witness, Sir* Peter Levene, Chief of Defence Procurement (Room 16, 4:15pm)
Transport - Subject, Developments in EC air transport policy. Witness: British Airways (Room 17, 4:15pm)
*Treasury and Civil Service* - Subject, Currency. Witnesses: Treasury, Royal Mint and Bank of England officials (Room 8, 4.30pm)
Armed Forces Bill: Witnesses: Ministry of Defence and other Government departments (Room 21, 5.10pm)
Committees on opposed private Bills: Heathrow *Express Railway Bill (Room* 5, 10.30am); London Underground Bill (Room 6, 10.30am)
■ **Thursday**
**Commons:** A Scottish National Party debate entitled "Gulf war aims and the restoration of peace in the region". The Representation of the People Bill, remaining stages. Opposed private business from 7pm
Lords: Planning and Compensation Bill, report.
Committees on opposed private Bills: Heathrow *Express Railway Bill* (Room 5, 10.30am); London Underground Bill (Room 6, 10.30am)
■ *Friday*
**Commons:** Private members Bills.

## UK COMPANIES

RECEIVERSHIPS, debt renegotiations and other actions initiated by the clearing banks have for months shown the havoc the recession is wreaking on the banking system.

The point will be driven home in the banks' year-end results with Lloyds Bank kicking off the reporting season on Friday. The other clearers and Abbey National will report over the following ten days.

The combination of rising bad debts and economic recession will take a heavy toll on their bottom lines. The damage was highlighted last Friday when Standard & Poor's downgraded Barclays Bank from a triple A to double A plus.

It had been one of only a handful of big banks around the world to be graced by the highest rating. S&P also put Midland Bank on creditwatch. Lloyds' profits will be down by about 30 per cent, not including the effect of special provisions against Third World debts and other exceptional items. S.G. Warburg Securities is forecasting £672m, down from £910m in 1989.

But Lloyds is also likely to stand by its promise of rewarding shareholders with a real increase in dividend – probably 15 per cent.

Royal Dutch/Shell, the Anglo-Dutch oil group, will report its fourth quarter and 1990 results on Wednesday. The group is expected to report around 40 per cent increase in profit to £1.29bn in the fourth quarter as the revenue benefits from higher oil prices began to be felt. Analysts are predicting a small decline in the full year's profit figure to £3.34bn from £3.58bn in 1989. These figures are on a replacement cost basis which strips out the stock losses and gains.

## UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Control Techniques, Howard Hotel, Temple Place, W., 12.00.
BOARD MEETINGS:
**Finals:**
Newmarket Venture Cap.
TR Pacific Inv.
Temple Bar Inv. Trust
**Interims:**
Ashtead
FII
Howard Holdings
Second Alliance Trust

■ **TOMORROW**
*COMPANY MEETINGS*
Archimedes Investment Trust, 131, Finsbury Pavement, EC., 12.30.
Daily Mail & General Trust, *Balmoral Room, Royal* Garden Hotel, W., 10.30.
LPA Industries, Saffron Hotel, High St., Saffron Walden, Essex, 11.00.
Stakis, Stakis Normandy Hotel, Inchinnan Rd., Renfrew, 3.00.
Titon Holdings, International House, Peartree Rd., Stanway, Colchester, Essex, 10.00.
BOARD MEETINGS:
**Finals:**
Scottish Eastern Inv. Trust
**Interims:**
Baldwin

■ **WEDNESDAY FEBRUARY 20**
COMPANY MEETINGS
Acatos & Hutcheson, Brands Hatch Thistle Hotel, Brands Hatch, *Dartford, Kent, 10.00.*
Bankers Investment Trust, Mermaid House, 2, Puddle Dock, EC., 12.30.
Burndene Investments, 22, *Hanover St., Edinburgh,* 10.30.
Doctus, Manhattan Suite, Hotel Britannia, Grosvenor Sq., W., 12.00.
*Group Development* Capital Trust, 125, High Holborn, WC., 12.00.
Sage, NEI House, Regent Centre, Gosrorth, Newcastle-Upon-Tyne, 9.30.

BOARD MEETINGS:
**Finals:**
Lloyds Abbey Life
Royal Dutch
Shell Transport & Trading
Yorkshire Chemicals
**Interims:**
Fleming High Inc. Inv. Tst.
Herrburger Brooks
Jos Holdings
York Waterworks

■ **THURSDAY FEBRUARY 21**
COMPANY MEETINGS
Electronic Data *Processing, Tapton* Masonic Hall, Shore Lane, Sheffield, 12.00.
Grainger Trust, Chaucer Bldgs., 57, Grainger St., Newcastle-Upon-Tyne, 12.30.
Greenall Whitley, Lord Daresbury Hotel, Daresbury, Warrington, Cheshire, 12.00.
M & G Dual Trust, Three Quays, Tower Hill, EC., 4.15.
Watson & Philip, Centre For Continuing Education, Tower Block, University Of Dundee, Perth Rd., Dundee, 12.15

BOARD MEETINGS:
**Finals:**
*F & C Enterprise Trust*
Mc Alpine (Alfred)
*Owners Abroad*
Provident Financial
Tribune Inv. Trust
Ward Holdings
**Interims:**
*Alumasc*
JF Pacific Warrants
Owners Abroad
SWP

■ **FRIDAY FEBRUARY 22**
COMPANY MEETINGS
Craton Lodge & Knight Group, Lyrich House, 149, Hammersmith Rd., London, W., 9.00
Invicta Sound, Slatters Hotel, St. Margarets St., Canterbury, Kent, 3.00.
Neotronics, Parsonage Rd., Takeley, Bishops Stortford, Hertfordshire, 12.30.
*Southern Business,* Queens House, Ullswater Crescent, Coulsdon, 11.00

*BOARD MEETINGS:*
**Finals:**
Grahams Rintoul Inv. Trust
Jourdan (Thomas)
Lloyds Bank
*MMI*
**Interims:**
JF Philippine Fund

*Company meetings are annual general meetings unless otherwise stated.*

## DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Amdahl 25cts
Borthwicks 0.5p
Credit Foncier de France $10\frac{1}{4}$% *Gtd. Ser. Ln. Stk. 2011,* 12, 13, 14 5.125pc
Electra Inv. Trust 3.1p
Guinness Mahon 0.65p
Itom (C) $9\frac{1}{2}$% Notes 1997 4.75pc
*Midlands Radio 2p*
Pilkington 2.93p
Thornton (GW) 33.75p
Treasury $8\frac{1}{4}$% Stock 1993 4.125pc
Triplex Lloyd 2.5p
Westland 2.5p

■ **TOMORROW**
Archimedes Inv. Trust Inc 13.25p
Bankers Trust Intl. Cap. Gtd. Fltg. Rate Subord. Notes 1996 $216.06
Hasbro 0.5cts
Wells Fargo Fltg. Rate Sub. Notes Feb. 1997 $216.06

■ **WEDNESDAY FEBRUARY 20**
Abbey National Treasury Services $14\frac{1}{4}$% Gtd. Notes *1991 7.125pc*
Barclays Bank Und. Fltg. Rate Prim. Cap. Notes Series 2 $415.28
Bradford & Bingley Building Society Sub. Fltg. Rate Notes *2005 Br. £359.81*
Canadian Imperial Bank Of Commerce Fltg. Rate Subord. Cap. Debs. 2085 $415.28
Caterpillar 30cts
Homestake Mining 5cts
Hongkong & Shanghai Banking Prim. Cap. Und. Fltg. Rate Notes $210.83
LPA Industries 1.87p
M & G Recovery Fund Inc. 0.5p
Royal Bank of Scotland 5.6p
Security Pacific 63cts
Wagon Industrial 6.325p

■ **THURSDAY FEBRUARY 21**
Allied Irish Banks Und. Var. Rate Notes $222.65
Aon 38cts
Britannia Building Society FRN *1994 £1736.29*
Exchequer $10\frac{1}{2}$% Stock 1997 5.25pc
Konica 7.8% Notes 1997 3.9pc
Leeds Permanent Building Society Fltg. Rate Notes 1997 £347.52
New Zealand Fltg. Rate Notes 1993 $412.08
Oil & Natural Gas Commission Gtd. Fltg. Rate Notes 1997 $424.86
Oriflame Intl. NPV (Reg Lux) 4p
Do. NPV (Br) 4p
Sea Containers 35cts
Security Pacific Fltg. Rate Sub. Capt. Notes 1997 $199.57
Treasury 10% Stock 1992 5pc

■ **FRIDAY FEBRUARY 22**
Abbey Panels Invs. 2p
Allied Colloids 0.8p
Allied-Lyons 6.27p
Baker Harris Saunders 1p
Bespak 3p
*Braithwaite 1.4p*
Caisse Centrale Des Banques Populaire Fltg. Rate Notes 1993 $122628.33
Chase Manhattan Fltg. Rate Notes 1991 $415.28
Chiltern Radio 3.8p
Commonwealth Bank Of Australia Und. FRN Exch. to Dated FRN $421.54
Daily Mail & Gen. Trust 83p
Do. 'A' NV 83p
Farepak 2.3p
First Technology 1p
Fiogas IR2.67p
Greenall Whitley 6p
Do. 'A' 1.2p
Lee (Arthur) 4.25p
M & G Gen. Trust Fund Inc. 19.57p
New Zealand Fltg. Rate Notes 1997 £170.92
Northern Foods 6p
*Royal Bank of Canada 29cts*
Standard Chartered Subord. Fltg. Rate Notes 1996 £170.61
Stanley Leisure Org. 1.8p
*TSB Offshore Inn Fund Ptg.* Red. Prf. 2.75p
TSB Offshore Inv. Fund Ptg. Red. Prf. 3.5p
Titon Holdings 1.98p
Woolwich Building Society Fltg. Rate Loan Notes 1995 £341.85

■ **SATURDAY FEBRUARY 23**
*Nationwide Anglia Building* Society 4.25% Index-Linked Loan Stock 2024 2.5256pc
Treasury $2\frac{1}{2}$% Index-Linked Stock 2011 £2.12

■ **SUNDAY FEBRUARY 24**
Burton 8% Conv. Uns. Ln. Stk. 1996/2001 4pc
Murray Intl. Trust 2.28p

## CONSTRUCTION CONTRACTS

# Hong Kong orders for Gammon

CONTRACTS worth over £40m have been won by **GAMMON CONSTRUCTION**, a Hong Kong-based company jointly owned by the construction division of Trafalgar House, and Jardine Matheson.

Largest award is a £32m (HK$488m) contract from the Hong Kong Housing Authority for the construction of seven 35-storey residential blocks with a gross floor area of 158,026 sq metres. A five-storey car park and associated external works are included.

Other projects include a £4.4m (HK$66.47m) contract for the Hong Kong government involving site formation of Sham Tseng treatment works, and building Sham Tseng West fresh water service reservoir.

Smaller awards totalling £3.8m (HK$58m) include piling, civils, and fitting out orders.

# Air traffic control centre

THE CIVIL Aviation Authority has appointed **BOVIS CONSTRUCTION** as management contractor for the construction of the building to house its £200m-plus new En Route Air Traffic Control Centre (NERC) to be built at Swanwick, near Fareham, Hampshire.

Bovis will manage the construction of the 41,000 sq metre building, together with building services. Site clearance started on the site last month, and the main construction programme begins in November.

The NERC is part of the CAA's £750m investment in updating and improving the UK's air traffic control facilities.

When it becomes fully operational in 1996, the Centre will control all en route traffic in the London flight information region, which covers England and Wales up to latitude 55 degrees north.

It will provide a 40 per cent increase in airspace capacity to cater for the predicted increase in air traffic by the turn of the century.

# Offices and homes in London

**WATES CONSTRUCTION (LONDON)** has a contract worth over £11m from The Shinfield Partnership for the redevelopment of 10-12 Great Marlborough Street and 18-20 Ramillies Place, London.

The project includes demolition, then construction of air-conditioned offices facing Great Marlborough Street.

Studio/workshop accommodation and nine residential units will face Ramillies Place, and the combined basement will contain car parking, storage and plant areas.

Elevations are of facing brick and Portland stone and the mansard roof is in slate.

# Foreign Office records

**LOVELL CONSTRUCTION** has a £7.2m order for a four-storey pyramid-shaped building at Hanslope Park near Milton Keynes, Bucks.

The building is for the Foreign and Commonwealth Office records and finance departments.

At ground level the walls will be brick-clad, while first and second floors will be glazed.

To form the pyramid, the perimeter of each floor will have a steel half-portal frame, with a full portal steel frame at the top to support the roof.

The plant room is to be housed in the louvre-clad third floor and roofs will be finished in concrete tiles.

Included in the contract are extensive mobile racking systems.

# Motorway work in Kent

**MONK CONSTRUCTION**, part of Davy Corporation, has been awarded a £5.65m 60-week contract by Kent County Council's highways and transport department for motorway developments at Thanet Way, Ramsgate. The work involves dualling 4.2km of single carriageway, together with 2.4km of new side roads and the construction of two reinforced concrete overbridges.

★★★

**SHELL U.K.** Exploration and Production, operator in the UK sector of the North Sea for Shell, Esso and other co-venturers, has ordered a PDS structured cabling system from **PILKINGTON COMMUNICATIONS SYSTEMS**. The £1.1m system will serve Shell Expro's Tullos Complex at Aberdeen, and will be completed over the next 12 months. The five buildings in the complex house 2000 on-shore staff. Ethernet LANs are used in all five buildings. Initially, these will be linked by optical fibre backbones with copper cables to the user stations. Open system design will allow for the introduction of high-speed LANs, such as FDDI, when required. The project will involve provision of new facilities, including distribution rooms for the communication system.

★★★

**SULZER (UK)** building services is to complete in four months nearly £1m worth of mechanical installation on the new Leo's Superstore at Yeovil. The order was placed by F.R. Bartlett Construction for the Co-operative Retail Services.

★★★

**TEAM SERVICES** has contracts worth nearly £2.9m to design and manage the building of bed-study accommodation for 200 students at the University of Wales, Cardiff. The first building is at Cyncoed, with two more at Llandaff.

★★★

**WESTBURY TUBULAR STRUCTURES**, part of Henry Barrett Group, has a £3.2m contract for the superstructure of the repair shed at British Rail's North Pole depot. This includes 600 tons of steelwork and curtain walling. Work on site starts in May for completion in September.

★★★

**WESCOL STRUCTURES** has orders totalling £3.5m for steel fabrication for office buildings. The largest is a £1.6m contract for the steelwork and metal deck flooring for an office block in Harewood Avenue, Marylebone, for Independent Estates.

★★★

**WIMPEY** has won a £1.7m contract to design and build a residential complex at the University of Bradford. Work has started, and is to be completed in time to house next autumn's undergraduate intake. The six accommodation blocks will provide 138 living quarters. A piazza and parking for students' vehicles will be included within the campus.

★★★

**BOWMER & KIRKLAND** has an order to design and build a sports hall for Huntingdon Town and Huntingdonshire District Councils. Worth about £1m, the contract is for a sports centre comprising a sports hall with five badminton courts, weights room, general activities room, lounge/bar and spectator gallery, together with associated car parking and facilities. Work starts in April for completion before Christmas.

★★★

A MATERIAL handling and control systems contract, worth about $6m, has been awarded to **LITTON INDUSTRIAL AUTOMATION** by Chicago-based Sears, Roebuck & Co to provide a totally automated high-speed sortation system for Sears' new $150m catalogue distribution centre in Belleville, Ontario. The system will be completed by August. It will include two conveyor networks, feeding up to 110 items per minute to the sort. The system will be able to handle items from nine inches long weighing one pound to a maximum of 46 inches and 85 pounds. They are sorted to 34 shipping docks, 26 with extendible conveyors to load the orders automatically onto waiting 55-ft delivery trailer trucks.

★★★

**STC TELECOMMUNICATIONS** has won a £500,000 order to supply The Netherlands Ministry of Defence with over 26,000 Elektron telephone handsets; 19,500 are for the Dutch army, 4,200 for the navy, and the remainder for the air force.

★★★

**HONDA UK** has awarded **JOHN COTTON (COLNE)** an order to produce automotive trim for a forthcoming Honda model. Code-named "Synchro", the first car is due off the production line later this year. Cotton will provide moulded headliners, rear shelves and spare-wheel covers. Production this year has a planned ouput of 8,000 units, rising to 100,000 in 1995. At full output the contract will be worth £3.1m.

★★★

**AKER CONTRACTING**, Oslo, has a contract from Phillips Petroleum Company, Norway, to upgrade the firewater system on the Ekofisk complex, as well as upgrading ventilation and electrical equipment on the Ekofisk tank area. The order is worth between Nk150m and Nk200m. Offshore works start last this year with completion scheduled for December 1992.



## LEGAL COLUMN

# Gaining ground in Germany without setting foot on the soil

By Robert Rice, Legal Correspondent

FOREIGN lawyers have had the right to practise in Germany since the end of 1989. Provided they register with the regional bar in the part of Germany in which they want to open an office, they can enter into partnership with German lawyers. They will be subject to the same rules of conduct and disciplinary controls as German lawyers. The only restriction on their rights of establishment is that they are not allowed to give advice on German law, although this may yet be struck down as contrary to the Treaty of Rome.

The opening up of the German legal market led to a rapid influx of foreign competition. By the end of 1990, 12 foreign law firms had opened offices there, including four UK firms and five US firms.

No doubt many more will follow, but an overseas branch office may be impractical for all but the very well-heeled with an existing volume of German business.

Firms which either want to set up a German practice from scratch or build up their volume of work in Germany or for German clients could form a strategic alliance or co-operation agreement with a German firm.

McKenna, one of the UK's top commercial law firms, will shortly announce that it has entered into a co-operation agreement with Sigle, Loose, Schmidt-Diemitz & Partner of Stuttgart. Sigle is a corporate and commercial law practice of 42 lawyers with offices in Berlin, Leipzig and Tokyo. It intends to open an office in Frankfurt later this year.

**Each firm will identify a team of partners and assistant solicitors for cross-border work**

The primary objective of the association is to provide an integrated service to the clients of both firms and eventually to include law firms from other EC countries to provide a service throughout the Community.

Although such alliances are becoming increasingly common in the EC, little has been written or said about how they work in practice or about how they are designed to work. The agreement by McKenna and Sigle has distinctive features which make it worth examining.

Mr Stephen Whybrow, McKenna's managing partner, says the success of the arrangement will depend on three things. He says they will be technical co-operation and the development of an integrated service; marketing co-operation; and the establishment of an organisational structure which will allow the two firms to carry out specific objectives on a continuing basis.

Each firm, for example, will identify a team of partners and assistant solicitors for cross-border work, including direct investment, mergers and acquisitions transactions.

The teams will exchange information on how the relevant transactions are dealt with in each country and will develop standardised documentation and procedures. If the cross-border team approach works, it will then be extended to other areas such as banking and litigation.

From the outset, the intention is that each firm should use the other's services as far as practicable.

They will not use each other where there is a conflict of interest, when a client states a preference for another firm, or the firm lacks the specialist expertise or capacity to give the client the best available service.

For example, Mr Whybrow says, McKenna has specific expertise in the pharmaceutical and construction industries and specialist legal expertise in intellectual property and environmental law. If McKenna wishes to refer work in those areas to another German law firm, it will tell Sigle what it is planning and ask to which firm the work should be referred.

Equally, if Sigle has clients which need English legal advice on shipping or private-client matters where McKenna has no real expertise, then McKenna would expect to be consulted by Sigle on choosing an appropriate UK firm.

In order to expand the scope of the agreement, the firms have also agreed that if one of them has a need for legal services in the other's country in an area of the law or a business sector not covered by the other firm, then it will look into the feasibility of acquiring the legal or business expertise in question.

One of the most difficult areas to organise in such co-operation agreements is the basis on which each firm will charge the other for work.

McKenna and Sigle have tried to keep the inter-firm charging arrangements as simple as possible. Advice given over the telephone involving less than half an hour's work will be free of charge. Other advice will be given at cost plus 10 per cent unless it can be charged to the client at a normal mark-up.

For transactional work, where a client is referred from one firm to the other, the other will charge its normal rates, having indicated them to the client in advance. Where work is referred on a subcontract basis, the charging rates will be agreed in advance for each separate piece of work.

The free exchange of information between the two firms will be vital to the success of the agreement. If they are to achieve technical, marketing and organisational co-operation there will clearly have to be a free exchange of information on such things as standard charging rates and practices, the identity of clients and the profitability, income, costs and accounting practices of each partnership.

**They are each aware of the other's arrangements with firms in other countries**

There is no reason why the agreement should not work, provided McKenna's far greater size does not become a problem. If it does work, the firms will attempt quite quickly to expand it to include law firms in other EC countries.

During the first half of this year they hope to identify a Paris law firm to join with them. Once an agreement involving the UK, Germany and France is operating, McKenna and Sigle will start to look farther afield.

Meanwhile, they have agreed that neither firm will form a link or association with any other firm in any European country without the other's agreement, and neither firm will link with another firm in the other's country.

In the US and elsewhere, neither firm is allowed to enter into a link or "visible" arrangement with any law firm without giving the other three months' notice.

They are each aware of each other's existing arrangements with law firms in other countries. McKenna, for example, has a joint-venture agreement in the Asia-Pacific region with an Australian firm.

McKenna and Sigle plan, however, to co-operate in other locations where they have offices. Sigle, for example, should be able to make use of McKenna's Brussels office either on the basis of either cost-sharing or preferential fees. Equally, McKenna will look to share offices with Sigle in Tokyo.

The agreement is for three years initially. If it does not work, either party can end it by giving three months' notice.

## MANAGEMENT

Saudi Arabian management

# A shift towards fulfilling potential

Preparations to safeguard employees prior to the Gulf conflict were indicative of fundamental changes, reports **Michael Field**

Before the Gulf war began a handful of the most sophisticated managements of Saudi Arabian companies tried to pre-empt the possible effects of a conflict. They sought to work out what the fighting would mean for them and organise a response which would keep their firms operating and their staff reasonably happy.

In these, as in most Saudi companies, the majority of employees are foreign; the labouring and clerical staff come from the Philippines, the Indian sub-continent and Egypt, and senior management from Europe and America.

The Olayan importing and manufacturing group, which is based in the Eastern Province, encouraged its employees to send their families home and gave them air tickets and some advance on their salaries to help them. It reasoned, rightly as it turned out, that if men knew that their wives and children were safe they would be less worried if missile attacks began.

The company prepared and displayed evacuation plans for moving employees to the west of the Kingdom, guessing that the mere fact such plans were known to exist would reassure staff. Most important of all, its senior managers kept in constant contact with employees, addressing them in small groups to discover their fears and discuss what could be done about them.

Ten years ago this style of management was almost unheard of in Saudi Arabia and even today it is confined to the banks, the big hotel chains, the state oil company, major western companies with joint ventures in the Kingdom, and not more than a dozen of the private Saudi trading and industrial conglomerates.

After the Saudi recession began in 1984 there began to emerge an entirely new breed of Saudi professional manager. Some of these people had trained as managers from the time they were at university, others were former engineers who were forced by economic pressures to concentrate on management.

What happened was that during the 1970s and early 1980s a large number of young Saudis went into medicine and engineering, two professions that enjoy particular respect in the Arab world. When the engineers went into business, many quickly found themselves filling senior management jobs that, because they involved dealing with the government or other state institutions, for cultural and language reasons had to be occupied by Saudis.

When not involved with the bureaucracy, engineer managers who were in industry focused their attention on production, leaving the marketing to look after itself – which, during the boom period, was sensible enough. When the recession came and companies had to start to compete or go out of business, it was suddenly realised that a knowledge of consumers, advertising, packaging – in fact marketing in general – was as important as a knowledge of production. In those companies that survived it became the smart thing for senior managers to go on business courses and qualify as MBAs.

At the same time as the managers were changing, the whole Saudi marketplace was changing. The extraordinary speed of growth of the Saudi population – now 12m, including 3m expatriates – and its extreme youth (60 per cent of Saudis are under 21) is producing a large market of young married consumers forming households and having babies. These people represent demand for a great variety of simple household goods that can be manufactured in the kingdom.

The same forces that produced the recession – the decline both in oil revenues and government spending – have made these goods cheaper to manufacture. Accommodation costs for foreign employees have fallen and last year were about a third of what they were in the early 1980s and, more important, the foreign labourers themselves have become cheaper.

Labour contractors have found cheaper sources of workers from Sri Lanka and Bangladesh. Also, because Arabian demand for foreign labour has been less and the Indian and Philippine economies have expanded slowly, the cost of labour from even these more "expensive" Asian countries has fallen.

Labourers have been staying longer in the Kingdom, tied to it not only by relatively attractive wages, but by security of employment and physical safety, good health care and the possibility of buying electronic consumer goods that are not available at home. Some of the better managed Saudi companies have employed 30 per cent of their foreign workforce for more than 10 years.

The longer the foreign labour stays, the more productive it becomes. With an excellent infrastructure, no shortage of capital, state-of-the-art machinery and a cheap imported labour force, some of the industries in Saudi Arabia have become internationally very competitive. Saudi companies have been exporting canends to Europe, air conditioners to China, steel buildings to Malaysia and plastic coat hangers to Japan.

Saudis meanwhile have become more interested in working for other Saudi companies rather than going into the civil service or setting up trading businesses on their own. The more dignified service jobs and jobs involving machinery are now popular in the Kingdom, though there are still no Saudis who will contemplate carrying out manual labour or demeaning jobs such as waiting or cleaning hotel rooms.

Saudis may or may not be cheaper than foreigners – it depends on what nationality they replace – but at the management level, if they are competent, they are better because they fit in with the culture of both the owners of the companies and their customers.

All of these changes point to business becoming more oriented to the long-term. In the boom years the classic Saudi businesses were importing, contracting and real estate.

Now most of the more serious private companies are manufacturing, or thinking of manufacturing or in operations and maintenance services. It is assumed by many companies that by the end of this decade most of the supermarket foods sold in the Kingdom will have been produced locally.

So those companies still contracting and trading are having to think more of how they will compete in the future.

A long-term view produces a greater emphasis on quality of production, professional marketing and better treatment of personnel.

Traditionally, most Saudi company owners employed the cheapest managers and workers they could find. They did not see what advantage could be gained from employing a manager who demanded a higher salary and even if he did show initiative they were not prepared to let him use it.

In some parts of the market these attitudes are still not changing. Because Saudi Arabia is an open market with a powerful, primitive, low overhead and very low profit margin wholesale sector, many parts of Saudi business are extremely competitive. The competition is increased by the fact that most Saudi consumers still tend to buy the cheapest of whatever product they want.

Most have not yet learned how to assess the quality of different products and relate that to their price. In such sectors the market still dictates that owners take on the cheapest employees.

Where there is a change is in businesses that are selling or manufacturing more expensive goods, or dealing with corporate and government buyers. In these areas, higher salaries, bonuses and profit shares – unheard of in the 1970s – are now the norm.

With the bonuses goes a more formal relationship between employer and employee. In the past Saudi owners treated employees almost as if they were a part of their families, giving them long periods of compassionate leave when necessary and even occasional presents.

But they also demanded that they worked whatever hours suited their whim, over-ruled their decisions, and gave them peremptory orders rather than polite instructions, as if the employees were servants.

Now that a younger generation of owners and professional Saudi top managers is taking over, more responsibility is being delegated, and westerners in the firms are beginning to recognise more of the organised management structures they knew at home.

# Disney's cast of thousands

**Diane Summers** on the staffing of the Paris theme park

Euro Disney, Europe's answer to Disneyland now under construction just outside Paris, has embarked on one of the largest recruitment exercises Europe has seen. It is looking for a total of 12,000 employees from all over Europe before its opening next year.

In Disney-speak, the theme park will be a "total vacation destination" and, in its first phase, will include six hotels, a camping ground and golf course. This is in addition, of course, to a show designed to create "an ambiance of fantasy and wonder". The park, on a site one-fifth the size of Paris, is expected to attract 11m visitors in its first year.

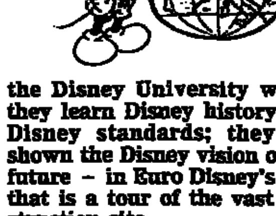
The recruitment style – West End musical meets McDonald's – has more in common with auditions for the theatre than a traditional staffing exercise. Employees are not hired for the job but cast for a role in the show, Garry Crawford, one of Euro Disney's recruitment managers, recently told a conference organised by the magazine Personnel Today.

The recruits are known not as employees, but "cast members"; "imagineers", rather than engineers, visualise and construct the "sets"; visitors are the audience; and jobs are either "stage" or "backstage". Disney's theatrical approach to both employment and customer service has been widely copied and has been a strong influence, in particular, in the UK hotel and catering industry.

About 1,200 European cast members have already passed their auditions and landed parts. In addition, 200 existing US staff have been seconded to the project to ensure the proper inculcation of the Disney culture or, as Crawford put it, "to transfer their Disney experience and knowledge to their new colleagues".

Management recruits take their turn sweeping up, operating rides and flipping hamburgers in Florida. Even when they start their proper jobs managers are not allowed to forget their lines; they must agree to a brief return to a basic Disney park job at least once every two months.

All staff kick off with a "traditions" orientation class at



the Disney University where they learn Disney history and Disney standards; they are shown the Disney vision of the future – in Euro Disney's case that is a tour of the vast construction site.

The Disney University is also home of cast (employee) communications; internal publications and bulletins are seen more as an extension of training than of marketing. "They continually reinforce the basic messages of quality and guest service," says Crawford.

The University's third function is to co-ordinate "cast activities" – from group outings, discount programmes, and Disney film screenings, to childcare networks.

By August most of the management positions in Euro Disney will have names against them. However, as far as the recruitment of other staff is concerned, the greatest push will not come until shortly before opening. Overall, 10,000 out of the 12,000 cast members will be recruited in the last five months; a team of 60 interviewers has been assembled to cope with the expected rush.

Crawford will oversee the taking on of 6,000 hotel and catering employees and he says Euro Disney is likely to have a strong presence this year at colleges and job fairs across Europe. Press recruitment advertising has already begun.

A second act for the show is envisaged. Design and management teams have been set up for another theme park next to the first, this time centred around the Hollywood film industry. Visitors will be able to stroll on Hollywood Boulevard and take part in reenacted scenes from movie classics. The site will also take in real Disney film and TV production studios.

In 1995, the likely first year of operation, an additional 8m visitors are expected to visit the Disney MGM studios Europe, as the theme park has been named. A second recruitment wave can be expected to hit Europe during 1994 – time enough for movie hopefuls to brush up on their star qualities.

## APPOINTMENTS

### Sealink managing director

■ SEALINK STENA LINE has appointed **Mr Gareth Cooper** *(pictured above)* as managing director. He was managing director of Crown Berger. Mr Cooper succeeds Mr Lars-Erik Ottosson who returns to Sweden but remains on the UK board.

■ **Mr Gordon Oldroyd** has been appointed managing director of BROOK CROMPTON CONTROLS, part of Hawker Siddeley's electric motors division, in addition to his post as managing director of Brook Crompton's small industrial motor division.

■ **Mr Michael Mayer** has been appointed a non-executive director of WALKER GREENBANK. He is chairman and chief executive of Emess and a non-executive director of Touche Remnant Smaller Companies.

■ NATIONAL PROVIDENT INSTITUTION has appointed **Mr Paul Harris** as assistant general manager (customer service - Tunbridge Wells). He was financial controller and planning manager.

■ WORLDSPAN INTERNATIONAL, Colwyn Bay, has appointed **Mr Dennis Keeping** as a non-executive director. He was managing director of Shell Oils.

■ JAMES BURROUGH has appointed **Mr Bernard Windsor** as personnel and corporate affairs director. He was responsible for personnel at Alfred Lamb International before it joined James Burrough last year.

■ **Mr Keith McNair** has been appointed director of fuel supply for NATIONAL POWER. He was vice president, natural gas and business development, of Mock Resources, US.

ROYAL MAIL PARCELFORCE has appointed Mr Malcolm Kitchener *(pictured)* as finance director, based at Milton Keynes. He was financial controller of Fisons pharmaceuticals division.

■ ERNST & YOUNG has appointed **Mr George Reese** as managing partner of Soviet Union operations. He was the partner in charge of the firm's Houston Energy Group, and will be based in Moscow.

■ **Mr Ian R. de Leschery** has been appointed managing director of N.T. BUTTERFIELD & SON (BERMUDA). He will be based in London, and joins the bank from American Express.

■ At TOMKINSONS, Kidderminster, **Mr Lowry Maclean** hands over the role of chief executive to **Mr Michael Hield**, who was operations director. Mr Maclean becomes non-executive chairman. He is to become managing director designate of THE WESLEYAN ASSURANCE SOCIETY, Birmingham. He is also a director of John Smedley.

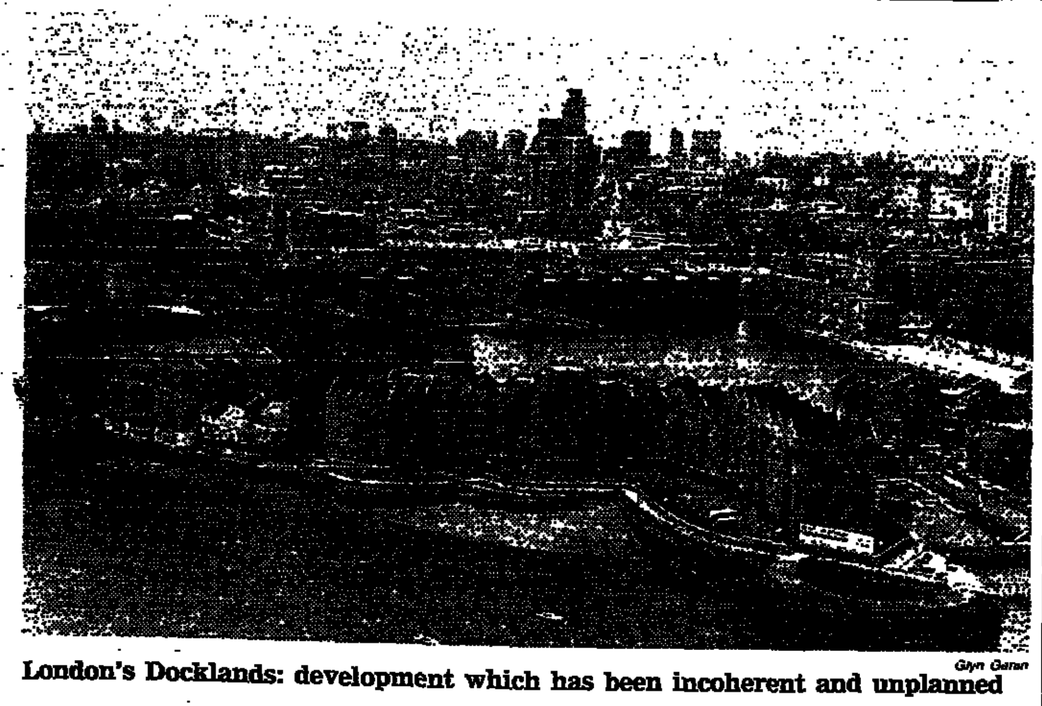
### Isle of Man post

Mr John Cashen *(pictured)* has been appointed chief financial officer of the ISLE OF MAN TREASURY from May 8, succeeding Mr William Dawson who is retiring. Mr Cashen was financial controller.

■ **Mr Staffan Svenby** has been appointed to the board of BLENHEIM GROUP. He joined Blenheim last November when it acquired Sydexpo. He will continue to be responsible for the company's interests in Scandinavia.

Mr Clyde Roberts *(pictured)* has become a director of AKAI (UK), Hounslow. He joined the company in March 1989 from Tatung.

# ARTS



London's Docklands: development which has been incoherent and unplanned *Glyn Genin*

ARCHITECTURE

## Thatcher's legacy

**The planning system is in need of a major rethink and now is a suitable time, argues Colin Amery**

It was Michael Heseltine who was reported as saying that the market lacked morality. It was Michael Heseltine who in 1988 wrote an open letter to the then secretary of state for the environment, Nicholas Ridley, expressing his concern that the countryside of the south-east was being ravaged by over-development. It was Michael Heseltine who, while he was in political limbo, made early proposals for the vital reform of the poll tax. Now he is back in his chair at Marsham Street as secretary of state for the environment, will he have time to apply his doubts about rampant Thatcherism to the planning system that actually shapes our environment?

Planning and planners have long been the scapegoats for architects and developers to blame for the poor quality of our built environment. But planners are servants of ideologies and as a new book (*Urban Planning under Thatcherism – The Challenge of the Market* by Andy Thornley, published by Routledge) explains, planning in Britain since the 1979 election has undergone some substantial changes and had many of its original post war convictions undermined. We live in interesting times, especially as the economic success that is essential for the triumph of any political dogma seems to have eluded the Thatcherites for the moment.

Mr Thornley's book gives a cogent account of what he, and many others, consider to be the significant re-orientation of the planning system since Mrs Thatcher came to power. He finished it before Mrs Thatcher's abrupt departure but he is careful to point out that the continuation of her ideologies depends much more upon economic success than upon the continuation of her physical presence behind the gates of Downing Street.

After the Second World War, planning flourished because it promoted a necessary new vision of society and encouraged the development of the welfare state. It was, however, always the product of a small elite of civil servants, politicians and experts. Because they promoted, or appeared to promote, the vague idea of the public interest, planning received democratic support.

During the 1960s there was much more negotiation between planners and the private sector. Planning was seen to be an apolitical activity helping to ensure a balance between interest groups and assuming a consensus of national aspirations. This was undone by the economic difficulties of the 1970s because the battle to achieve social aims inevitably meant that planning and planners became involved in the political arena.

It was a certain easing of the planning rules during the 1960s that made so much city centre redevelopment possible. The destructive aspects of this profitable development caused an inevitable backlash and brought about some token changes to the system to encourage participation. But there was a vagueness about the real purposes of planning – it could be seen to be a delaying and tiresome influence by the private sector, and it could be seen to be socially manipulative and interfering by a complaisant public sector.

Mrs Thatcher changed all that. Because she and Friedrich Hayek and Keith Joseph were determined to roll back the powers of the state, challenge the consensus of the 1970s and elevate the importance of the market, it was inevitable that planning would be scrutinised and procedures would be changed. The author of this study identifies this approach as "neo-liberal, authoritarian and anti-bureaucratic."

It was more than that because ways were found and developed, not for a thoroughgoing reform of the planning system (after all, it is still there), but to manipulate and by-pass the existing system. The creation of Urban Development Corporations, Enterprise Zones and Simplified Planning Zones were, in fact, initiatives that replaced the existing system, although only in certain areas. Mrs Thatcher could see that the existing system was not working in places such as London's Docklands and on Merseyside.

It is highly questionable whether her alternative approach has delivered the goods. An objective observer might feel that the careful renaissance of Glasgow under its Labour council has been more successful than the collapsed economic condition of the unplanned London Docklands. Mrs Thatcher, as is pointed out in this book, carried a lot of support for her critique of the old system, but she did not find a satisfactory replacement. Centralism antagonised local democracy, market competition and rampant road growth did not help the environment, poverty continued and there was inadequate investment in the infrastructure.

The fact that post-war planning interfered in the market is what upset Mrs Thatcher. After all, the white paper to re-examine the system was called, "Lifting the Burden". But at the same time there seemed to be in the Thatcher years a totemic regard for certain aspects of the planning system. Conservation, heritage, green belts – although sometimes threatened – were seen to be electorally (among the middle classes) important. Mrs Thatcher's curtsey to the Queen was lower than anyone else's but no prime minister has been so authoritarian or domineering over the entire nation. In the same way her token regard for the beauties of England only half concealed the dreadful mess her free-for-all policies were making.

The visible end products of the attempt to move towards a simpler planning system are not thrilling. Docklands is incoherent and unplanned to a degree that makes it apparently uninhabitable now that the profit motive has lost its appeal. The spread of business parks and supermarkets and infill of land near new roads is a mixed blessing for our cities. The failure to attract sufficient support for private funding for the infrastructure has made life actively unpleasant for large numbers of people.

Mr Patten, Mr Major and Mr Heseltine have their work cut out to achieve a sense of social consensus that enlightened planning can provide. Or should the next manifesto decide that Mrs Thatcher was not radical enough and the whole system should be replaced? Mr Thornley's book explains why things are as they are now. It is time for an open debate on the planning system. When you consider that almost everything you see around you built since 1947 has been through the present tortured system, it must be time for a major rethink, Mr Major.

## Count Ory

**NEW THEATRE, CARDIFF**

The first new production of Welsh National Opera's spring season is as coarse-grained and unfunny a staging of *Count Ory* as one hopes ever to encounter. That it is splendidly conducted and more than decently sung only compounds the disaster: Rossini's masterpiece deserves far better than the kind of camp romp served up here by producer Aidan Lang and designer Russell Craig. Lang's small-scale *Hansel and Gretel*, toured by WNO at the turn of the year, was a perceptive delight; it is hard to believe this is the work of the same director.

The pantomime during the overture to *Ory* sets the tone. The curtain rises on an armoury, strewn with assorted instruments of bondage: Adèle is wheeled in aboard a hospital trolley, and while her crusading brother watches, a masked, bare-chested blacksmith installs a large metal chastity belt - cue for the first gales of laughter. No subsequent opportunity for raising the cheapest laughs is wasted either. The set itself is an ingenious triple revolve, yet it is tiled like a gent's urinal – or perhaps a New York steam bath, as one of my more worldly colleagues suggested; everything, right down to the tattered wallpaper and ill-fitting green carpet, is designed to be thoroughly tacky, disposable.

So all the women's chorus in the second act are dressed in an assortment of basques and tutus, each with the inevitable chastity belt; the semi-naked messenger who descends from the flies at the end of the first act sports angel's wings, boots and carries a ministerial red box, while the pleasures of the castle in the second act naturally include a male prisoner chained and bound to the wall. An opera that revolves around sexual continence and transvestism is open to a variety of directorial interpretations certainly, but what Lang offers is just a parade of camp images, without any attempt to direct a stage comedy with any sense of flair or style.

What emerges from the pit, however, is authentically stylish. Carlo Rizzi made a substantial impression last year with his *Cenerentola* at Covent Garden and *Barber* for Opera North; here he conducts with verve, immense spirit and, precious commodity in this show, a real sense of timing. And because all genuine characterisation has been squeezed out, to be replaced by Carry On caricature, the cast too has to rely purely upon its musical abilities to create any impact.

They are led by Bonaventura Bottone's Count, elegant of phrasing, clean and well-focused in the highest register, and by Janice Watson's finely tuned Adèle with a coloratura that may not be ideally articulated – too many scoops and whoops – but has a winning command of tone colour. Bernadette Cullin's no-nonsense Isolier rises above the worst of the "humour", as does Anne-Marie Owens's splendid Ragonde, even though she is burdened with the most grotesque second-act costume of all; Peter Savidge's Raimbaud and Peter Rose's tutor head up the band of Ory's camp followers.

With those who actually prefer their Rossini with a heavy dose of homo-eroticism, or think that beefy men dashing round in nuns' habits with fish-net stockings and suspenders is the pinnacle of sophisticated humour, this production will doubtless go down a treat; the rest of us might be forgiven for a little less enthusiasm. That this should be the first offering from the financially redeemed WNO can only sharpen the irritation; but perhaps from the Arts Council's fastness in Piccadilly such aberations seem like harmless bits of provincial fun, so that distance really can lend enhancement.

**Andrew Clements**

Janice Watson and Bonaventura Bottone *Alastair Muir*

## The Turn of the Screw

**COLISEUM**

The economy of its forces – no chorus and only 13 in the orchestra – means that *The Turn of the Screw* is a sensible choice to put on financially, even if has never become a firm favourite with the public. This is the fourth revival that English National Opera has mounted of its production by Jonathan Miller since it was new in 1979.

Each time one sees the staging, it comes as a surprise how good it looks. The set comprises little more than projections; but the effect is to conjure a mysterious domain on the borders of reality, a world of faces half glimpsed, of places clammily cold. The atmosphere is chilling, even on one of those poorly-rehearsed ENO first nights when nothing works and extra ghostly figures have to run in and out with the props.

This is an opera in which suggestiveness is everything. Although Britten chose to make real some of the ghostly encounters that are mere speculation in Henry James's original story, the producer does have some licence in how far he wants to bring the underlying theme of corruption above the surface. In that respect Miller is one of the opera's most cautious interpreters and his production does little.

Indeed, at some earlier revivals it has felt quite tame. But not when it has as the governess an involving central performer who gives her all, as Eilene Hannan powerfully did here. Miss Hannan can sound strained at the top of the voice these days; but a sense of feelings being torn from her against her will only added to the tension. She charted the woman's descent from calm propriety to near-paranoia with real intensity.

The production's balance between innocence and corruption is further tilted towards the former by casting the very young Samuel Burkey as the boy Miles: no colluding adult in short trousers he, but a vulnerable minor, tortured by the pull of opposing forces. A shame he was paired with a sister in Rosemary Joshua who looked a jolly big girl to be singing lullabies to her dolly.

The rest of the cast was never less than adequate. Menai Davies's Mrs Grose made a splendid old retainer, who gave the impression that she may have "taken a liberty" or two in the past herself. Stuart Kale and Christine Bunning, the latter made up to look truly like something from the other side of the grave, did well enough as the two ghosts. The conductor was Michael Lloyd, who built up such a baleful climax at the end of Act One as to make one think that this chamber opera may belong in the Coliseum after all.

**Richard Fairman**

## Talich Quartet

**WIGMORE HALL**

The Talich Quartet returned for two concerts at the weekend. On Saturday evening they performed masterpieces by Mozart and Brahms and began with Smetana's fascinating second string quartet (1883) – no masterpiece, this, but a work whose very lineaments of structure seem to declare the pain from which the composer, depressed, deaf and near death, was suffering as he wrote it.

Although the four movements come in the conventional order, they are perfectly *sui generis*: foreshortened, oddly devised, and prone to formal disintegration. Heroic and lyrical moods are variously asserted, but can never establish themselves. Fragmentariness becomes the ruling principle, not, one feels, because Smetana , like many great composers in their "late" periods, sought it out, but because he could not stave it off. The finale starts with a ridiculous burst of energy that is immediately sapped, and the spurt of D major with which this D minor work finds it in itself to end is a pathetic attempt to force a victory.

The work is not so much a quartet as a howl of pain; but, this being art rather than life, an extremely interesting howl. The Talich players' account was wonderfully sympathetic and lucid: one could follow all Smetana's abortive gestures with the utmost clarity. Following, Mozart's D minor quartet K421 did not seem as one had feared an undue insistence of the programme on that key, but a blessed state of musical order, an assertion of absolute compositional mastery, a tragic statement in which life is life and art is art.

The Talich's reading did not over-emphasise the tragic content, and was almost too immaculate. The very deftness with which the cross-accenting in the variations finale was rendered detracted slightly from the music's power. More of the repeat marks should perhaps have been observed to give this extraordinary movement its proper weight.

However, it is hard to complain of playing that is as beautiful, stylish and heartfelt as that of any string quartet in the world. Their performance of Brahms's second quartet (Op 51 No 2) was a model: translucent of detail yet pulsing with life; vigorous, warm and precisely eloquent. They were able to convey the romantic roundedness of Brahms's style by still playing, so to speak, in Mozartian straight lines.

**Paul Driver**

## White Chameleon

**COTTESLOE THEATRE**

*The first and final scenes of* Christopher Hampton's memory play reveal its true colours. In an opening of vivid eccentricity, a 10-year-old boy teaches a trio of Egyptian cross-channel swimmers to sing their own national anthem. In a close of wan sentimentality, the grizzled family retainer, abandoned by his British masters, guards their empty house in Alexandria against the advance of the mob.

Put them together and the you begin to realise how difficult the contradictions of a colonial upbringing make it to say anything new or politically challenging in autobiographical format.

The boy, of course, is Hampton himself; the retainer is Ibrahim, his friend, counsellor and conspirator over bottles of Coke and of watered down whisky - the only temptation which could make this good and faithful Moslem turn to Christianity.

What Hampton apparently sets out to do is to use his own experience as the child of commercial expatriates in Egypt, circa Suez, to show how much, and how muddied, water has swirled under the bridges of the Middle East. Nasser, one remembers, found himself in a position not dissimilar to that of Saddam Hussein today, construe it how one will.

Hampton's memory is of a father who raged at the injustice of it all and took tea with soldiers who left the back door unguarded so that their British hostages could come and go as they pleased.

The play could easily have turned out provocative, but does not – it is almost as if present events have left the play behind, reducing the relevance of nostalgia for the good old days, hedged around with all the usual points about the bad old aspects of it – such as being thrown into herbaceous borders for "wog-loving" by the militaristic sons of military men at a dying prep school in Surrey.

Not that Hampton writes boorishly or crassly; indeed, anyone with expatriate blood in their veins will shiver with the truth of the central relationship between child and servant. It is just that the mob outside the door in the final scene is so much more urgently important.

Hampton makes up for the absence of political risk by giving the central role to a pre-pubescent boy, a challenge that is embraced by director Richard Eyre with an outstanding piece of juvenile casting. Owlish and gangling in his school shorts, the young David Birkin has a way of making catapults of the heartstrings, and just as you think he is becoming excessively cute you catch a roguish glint off his glasses.

Unusually for a memory play, this chirpy little Christopher holds centre stage, pushing the magnanimous Tom Wilkinson into a gentle supporting role as his father and as his older self.

If Hampton himself is the play's subject, its object is Ibrahim, who is drawn with an almost tangible affection and admiration. Saeed Jaffrey is problematically cast as an Asian actor playing an Arab when the colonial relationships of the two continents were so different.

Occasionally his intonation drifts East, recalling those endless, breathless death-of-the-Raj sagas. He is funny, humane and dignified, but at the end of the evening one has to question this personification of Arab manhood in a trusty swigger of the dregs in sundowner glasses.

**Claire Armitstead**

## INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

### ■ BOLOGNA

**Teatro Communale** 21.00 Piano recital by Leif Ove Andsnes, with music by Chopin, Janacek and Grieg. Wed and Sat: Un ballo in maschera with Aprile Millo as Amelia (529999)

### ■ BERLIN

**Staatsoper unter den Linden** 20.00 Lowe Quartet with Manfred Friedrich, flute, and Heiner Schindler, clarinet, play *Mozart* chamber music. Tomorrow and Fri: Eva-Maria Bundschuh sings Salome, with Ekkehard Wlaschiha as Jochanaan. Sun: Der fliegende Hollander with Theo Adam (2004 762)
**Komische Oper** 19.00 Tom Schilling's ballet Tales of Hoffmann, with music by Offenbach. Tomorrow: Cinderella (2292 555)
**Deutsche Oper** 19.30 Sylvie Guillem dances Bolero, in a programme which also includes Béjart's Firebird, Balanchine's Apollo and Roland Petit's *Carmen, with* Peter Schaufuss as Don Jose and Susan Hogard as Carmen. Tomorrow: Samson et Dalila (3410 249)
**Philharmonie Kammermusiksaal** 20.00 Peter Eotvos conducts Chamber Orchestra of Europe in programme including Bartok's Music for Percussion, Strings and Celesta. Wed, Thurs, Fri and Sat: *James Levine conducts Berlin* Philharmonic (2614 383)
**Schiller Theater** 19.30 Schiller's Die Räuber, also Sat (3195 236)

### ■ BONN

**Oper** 20.00 Recital by Shirley Verrett, with songs by Brahms, Massenet, Debussy and Joaquin Nin. Tomorrow and Sun: Julien Sorel, ballet by Yuri Vamos with music by Elgar. Sat: Dennis Russell Davies conducts Die Frau ohne Schatten (773667)

### ■ BRUSSELS

**Palais des Beaux Arts** 20.00 Miriam Fried plays violin sonatas and *partitas by Bach. Thurs: James* Galway is soloist with Belgian National Orchestra (507 8200)

### ■ BUDAPEST

**State Opera** 19.30 Jacques Mercier conducts Budapest Philharmonic *Orchestra in a symphonic* programme with Jeno Jando piano soloist. Repeated tomorrow. Thurs: Erkel's opera Bank Ban. Fri: Tannhauser
**Budapest Convention Centre** 19.30 Ken-Ichiro Kobayashi conducts Hungarian State Symphony Orchestra and Chorus in all-Mozart programme
This week's other events include Madama Butterfly (tomorrow) and Kodaly's Hary Janos (Wed and Sun) at the Erkel Theatre, and a Ravel and Debussy programme with the *Hungarian State Symphony* Orchestra at the Academy of Music (Thurs). Pre-booking at Philharmonic booking office, Vorosmarty ter 1

### ■ COLOGNE

**Philharmonie** 20.00 Raymond Leppard conducts Gurzenich Orchestra in Elgar's Enigma Variations and William Schuman's New England Triptych, plus Mozart's Sinfonia Concertante for four wind instruments. Also tomorrow (2801)

### ■ DRESDEN

**Semperoper** *19.30* Members of the Berlin Philharmonic Orchestra and Leipzig Gewandhaus Orchestra play chamber music by Beethoven, *Mozart, Ives, Martinu, Richard* Strauss and others. Tomorrow: Salome. Wed and Sat: La bohème. Sun: Meistersinger (4842 731)

### ■ FRANKFURT

**Jahrhunderthalle Hoechst** 20.00 Jorg Faerber conducts Württemberg Chamber Orchestra in symphonies by Haydn and Mozart, with Elisso Wirssaladse soloist *in* Beethoven's Piano Concerto No 2. Fri: piano trios by Haydn, Ravel and Tchaikovsky played by the Tchaikovsky Trio *(3601 240)*

### ■ LONDON

**Covent Garden** 19.30 Triple *bill* including Kenneth MacMillan's new ballet Winter Dreams, with Anthony Dowell, Darcey Bussell and Viviana Durante. Also Sat. Wed and Fri: Manon with Sylvie Guillem (240 1066)
**Barbican Centre** 19.45 Peter Donohoe plays Schumann's Piano Concerto with Chetham's Symphony Orchestra. Wed: *Mozart* concert with Westminster Abbey Choir (638 8891)
***THEATRE***
This week's shows include The King and I starring Susan Hampshire (Sadler's Wells), The Wind in the Willows and Durrenmatt's The Visit (National), Pinter's The Homecoming directed by Peter Hall (Comedy), Joe Orton's What the Butler Saw (Wyndham's) and Alan Ayckbourn's Absurd Person Singular (Whitehall). Phone Theatreline: Plays 0836 430959 Musicals 0836 *430960 Comedies 0836 430961* Thrillers 0836 430962

### ■ THE HAGUE

**Dr Anton Philipszaal** 20.15 Lev Markiz conducts Netherlands Chamber Orchestra in Mozart and *Richard Strauss, with Sabine* Meyer soloist in Mozart's Oboe Concerto. Sat: Residentie Orchestra plays music by Gyorgy Ligeti (3609 810)

### ■ MUNICH

**Staatsoper** 19.30 Die *Entführung* aus dem Serail, also Sat. Tomorrow and Fri: Die Vier Grobiane. Wed: Siegfried. Thurs: *Figaro (221316)*
**Philharmonie** 20.00 Hiroshi Wakasugi conducts Munich Philharmonic Orchestra in Bartok's *Miraculous Mandarin, with Martha* Argerich soloist in Beethoven's Third Piano Concerto. Also tomorrow and Wed (48098 614)

### ■ NEW YORK

**MUSIC**
**Metropolitan Opera** 20.00 Revival of Le nozze di Figaro conducted by James Conlon, with Pamella Coburn, Mirella Freni, Frederica von Stade and Samuel Ramey. *Also Fri. Tomorrow: La bohème.* Wed and Sat: Luisa Miller. Thurs: Fidelio (362 6000)
**THEATRE**
This week's shows include Fiddler on the Roof with the Israeli actor Topol as Tevye (Gershwin), Assassins, Stephen Sondheim's latest musical (Playwrights Horizons), Six Degrees of Separation, new play by John Guare (Lincoln Center) and Falsettoland, musical by William *Finn (Lucille Lortel). Ticketron (246* 0102) answers inquiries and sells tickets

### ■ PARIS

**Comédie Française** 20.30 La Mere coupable by Beaumarchais, also *Fri. Tomorrow, Sat and Sun: new* production of Moliere's Le Malade imaginaire (4366 4360)
**Théâtre des Bouffes du Nord** 20.30 Peter Brook's production of The Tempest. Runs till March 2 (4607 3450)

### ■ PRAGUE

**National Theatre** 19.00 Katya Kabanova. Tomorrow and Thurs: *Giselle. Wed: Bartered Bride. Fri* and Sat: Dvorak's The Devil and Kate
**Smetana Theatre** 19.00 Rigoletto. *Tomorrow and Fri: Tosca. Thurs:* Martinu's The Miracle of Our Lady
**Eden Cultural Hall,** Zacatek 19.30 Czech Nonet plays music by Myslivicek, Martinu and Dvorak
Other events this week include three Prague Symphony Orchestra concerts at the Smetana Hall (232 8292): music by Prokofiev and Mozart conducted by Petr Altrichter (tomorrow and Wed), and a programme of film music by Prokofiev and others conducted *by Frantisek Vajnar (Fri)*
Pre-booking at Sluna ticket agency, Wenceslas Square 28

### ■ ROTTERDAM

**De Doelen** 20.15 Piano recital by Bella Davidovich, with music by Schumann and Chopin. Tomorrow: Netherlands Wind Ensemble. *Fri* and Sun : Frans Brüggen conducts Rotterdam Philharmonic in Mozart and Beethoven. Sat: Ton Koopman *conducts Mozart symphonies with* Amsterdam Baroque Orchestra (413 2490)

### ■ STOCKHOLM

**Royal Opera** 19.30 Tosca. Sat: new production of Dominick Argento's opera The Aspern Papers with a cast led by Elisabeth Soderstrom (248240)

### ■ VIENNA

**Staatsoper** 19.00 Die Zauberflöte with a cast including Heinz Zednik and Robert Gambill, also Thurs. Tomorrow: Leontina Vaduva sings Manon (51444 2960)
**Musikverein** 19.30 Isaac *Karabtchevsky conducts* Tonkunstler Orchestra in music by Beethoven and Mendelssohn. Tomorrow: Pinchas Steinberg *conducts Czech programme with* Austrian Radio Symphony Orchestra (505 8190)
**Konzerthaus** 19.30 Thomas Zehetmair and Malcolm Frager play violin sonatas by Mozart. Tomorrow: recital by Margaret Price. Wed and Thurs: George Prêtre conducts Mendelssohn and Richard Strauss (7124 6860)

### European Cable and Satellite Business TV

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*0800-0830 Moneyline*
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Monday February 18 1991

# Mr Saddam's sole success

IN HIS battle against coalition forces and its western members, in particular, Mr Saddam Hussein has achieved only one substantive victory, that over the international travel industry. This success he owes to the funk not merely of individual tourists, but, more shamefully, of the major corporations of the world.

Nevertheless, those corporations may find that there is an unexpected lesson to be learned from the crisis, one that would be as valuable to them as it would be devastating to airlines and hotels. Is much of the global criss-crossing of their executives, they may begin to wonder, altogether necessary?

The effects of the collapse in travel can be seen everywhere. The Londoner is as much astounded by the queues of empty taxis as entranced by the desire of their drivers to please. Shows once available to those who had had their names put down at birth can now be seen at will.

Still more remarkably, airports have become civilised places once more. It has even been rumoured that the stewards and stewardesses on Europe's sloppier state-owned airlines have shown a pronounced willingness to serve. This particular rumour has, it is true, not been substantiated and, if the Commission of the European Community allows eager EC governments to pour money into their airlines, it may never be.

## Business passengers

Behind these pleasant changes for the customers lies pain for many of the companies concerned. BAA, for example, reports that in the first two weeks of the war in the Gulf, the number of passengers using Heathrow was down by 24 per cent from the same period of last year. Gatwick's decline is almost as large. For British Airways the war resulted in a more or less immediate drop estimated at 13 per cent in passenger numbers. Meanwhile, traffic volume was down some 20-25 per cent within Europe in the last two weeks of January, compared with a year earlier.

Yet what matters most to airlines is the loss of business passengers. To their horror, one major company after another has banned all "non-essential" travel, or at least advised against it. This panic has come on top of what was already a marked recession in much of the airline business.

Set against the risks involved in driving a car, crossing the road or walking in many cities at night, the dangers of flying are surely small. Yet, by their panic, businesses have let Mr Saddam inflict the damage he wants, even though he has not yet done anything. One must sympathise with the view, forcibly expressed by Mr Bernard Attali of Air France, that "the duty of a western captain of industry today is to continue to work with head held high". That would certainly be better than cowering before a dictator's threats.

## Tourists' fears

With big businesses trembling, it is easier to understand the fears of tourists. The mortar bombing of Downing Street has probably convinced many North Americans that London is much like Beirut. They would be amazed, one suspects, to learn that the concern of Londoners is, instead, about the chaos inflicted upon them by the combination of snow and British Rail.

The sole comfort to the airlines and the rest of the travel industry must be that terrorist scares have always passed away in the end. Businessmen and women will probably return to the champagne and the jet lag. There, away from their families and their bosses, they will relax, if only for a few moments.

Yet could this time be different? Might the corporations that have banned all "non-essential" travel conclude that no good reason can be found for paying vast sums on something often inessential? Might their employees be forced to resort to the telephone and the facsimile machine? Might they have to stay at home with their families, instead of jaunting off on trips abroad?

The panic may be disgraceful and the results for certain businesses disastrous, but this cloud could have a cost-saving silver lining. That would not be good for airlines, but it could be wonderful for those still prepared to fly with them.

# Need for BT to come clean

BRITISH TELECOM's chairman, Mr Iain Vallance, has mishandled the public relations of his company's price dispute with the government.

Provoking Sir Bryan Carsberg, the head of Oftel, the industry regulator, to say that Mr Vallance may have created a "seriously misleading impression" was at best a misfortune. But losing one of the UK's better known economists, John Kay of the London Business School, as a consultant was carelessness.

Nevertheless, BT's public relations problems should not obscure the ostensible merits of the company's case.

The company argues that it is forced to charge artificially low prices for renting lines, but artificially high prices for making calls – a cross-subsidy that works out at more than £2bn a year, it says. It would like to put up line rental charges more rapidly than the rate now allowed – 2 percentage points a year faster than the retail price index. It would like eventually to double them, and make compensating cuts in call charges.

If BT's figures are correct, the current pricing structure is causing considerable damage to the economy, because people are being deterred from making phone calls which they would otherwise make.

The pricing structure is also undermining the government's aim of creating a more competitive telecommunications market. If BT's line rental charges are substantially below costs, it will be difficult for new entrants – however efficient they may be – to compete with the company in this part of the market. Similarly, if its call charges are above costs, BT may be undercut by rivals which are less efficient than it.

## Further objection

The weakness of this argument is that BT has refused to publish figures to support its claim that the subsidy is massive, which fuels suspicions that the calculations are not robust.

A further objection, made forcefully by Oftel, is that BT agreed to the current pricing regime only two years ago. The deal has two years to go and it would be wrong to unravel it now just because BT no longer finds it to its liking.

This objection would be decisive if it were only BT's interests that were at stake. But if the public interest is also being harmed, there is no virtue in continuing with the current regime, just for the sake of consistency.

Oftel could ensure that the benefits of price reform fed through to customers rather than shareholders by tightening the overall price cap by a notch or two. This would be reasonable both because the rebalancing of prices would boost BT's revenues and because there is still fat to be trimmed from the company.

## Poorest customers

At the same time, BT should live up to the pledge reiterated in today's letter from Mr Argent to cushion poor customers, for whom line rental charges are likely to be a high proportion of their bills, from the effects of rebalancing. Although it makes no sense that all BT's customers receive a subsidy on their line rental charges, there is a political requirement that the poorest customers should receive such a subsidy. There is an argument, however, for placing the burden of subsidy on all producers in the industry, perhaps in proportion to revenue, and not just on BT.

The government and Oftel have two main options. They can either postpone the issue until the current regime comes to an end in 1993 or they can agree to an investigation now. BT itself could force the government's hand by taking the matter to the Monopolies and Mergers Commission.

The latter looks the best course, in any case, particularly if one accepts BT's argument that information on its costs should remain a commercial secret. Given BT's monopoly position, it is not evident that this principle should be sacrosanct. Much can be said for requiring BT to establish, to the satisfaction of the public at large that the politically sensitive course of rebalancing is justified. But if BT is not to publish the information, as Mr Argent insists, not only the regulator but the MMC too should mount an exhaustive investigation into the cogency of its case.

As Mr Norman Lamont prepares his first Budget as chancellor, **Peter Norman** assesses his limited room for economic manoeuvre

# Caution in the face of challenges

Mr Norman Lamont was the kingmaker who put Mr John Major into Number 10 Downing Street. Now, as chancellor, his task is to manage the economy so that the prime minister can win the next election.

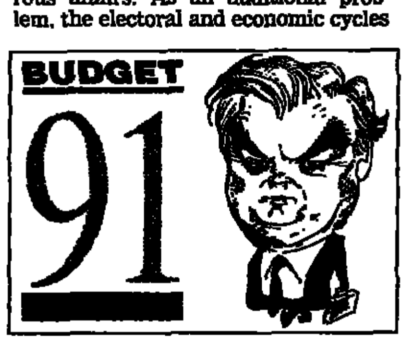
A vital stage in that process will be Mr Lamont's first Budget, which will be unveiled four weeks from tomorrow. It promises to be as cautious as the problems facing the chancellor are challenging.

Since mid-January Mr Lamont has had to adapt his naturally gregarious nature to the quaint British ritual of pre-Budget purdah. Apart from the odd appearance at an international meeting or in a parliamentary debate, he has been out of the public eye, weighing his options with senior Treasury officials.

In spite of the protracted incubation period that purdah allows, Whitehall insiders reckon that the key elements of this year's Budget will only be finalised close to Budget day on March 19. For Mr Lamont's decisions will be made against a background more fluid and uncertain than any in recent years. The Budget will be:

- the first in a recession since the early 1980s;
- the first in nearly two decades to be set in the context of a fixed exchange rate system;
- framed at a time when the government's finances are moving from large surplus to deficit, and;
- announced against the background of the Gulf conflict.

Never far from the chancellor's thoughts will be the imperative of winning the next election that has to be fought by the middle of next year at the latest. Traditionally, pre-election Budgets have been unadventurous affairs. As an additional problem, the electoral and economic cycles




are badly out of synchronisation.

It is now clear that Britain is in a recession that is deeper and more painful than anything contemplated by Mr Major and Mr Lamont when they took over the reins of power last November.

At 1.9m, seasonally adjusted unemployment in January was already well ahead of the 1.75m average envisaged by the government for the 1991-92 financial year in its Autumn Statement just three months ago. Official figures last week chronicled a sharp 3 per cent fall in manufacturing output between the third and fourth quarters of last year. Manufacturing investment was down 7 per cent in the same period.

Last Friday's government figures may have shown retail price inflation dropping to an annual 9 per cent last month from 9.3 per cent the month before. But this achievement was tempered by last week's news of a 12.5 per cent yearly rise in manufacturers' unit labour costs in December and warnings from the Bank of England that Britain's slide into recession has so far had little impact on earnings growth or underlying inflation.

Yet the first tentative signs have also emerged that there may be more than just hope behind the government's belief that this recession may be less deep and less prolonged than the very severe downturn at the beginning of the 1980s.

It would probably be unwise to pin too much on the smaller than expected 46,200 rise in January's seasonally adjusted unemployment. The process of smoothing seasonal wrinkles out of Britain's wobbly statistics is inexact at best and especially prone to revision around the turn of the year. Company announcements and anecdotal evidence suggest that a lot more unemployment is in the pipeline.

More encouraging, the recent quarterly survey of industrial trends from the Confederation of British Industry, while establishing that business confidence was at a 10-year low, suggested that the pace of the downturn might be decelerating.

A month ago, economists were impressed at how every indicator of economic activity had turned out to be worse than forecast. Now, says Professor Alan Budd, economic adviser of Barclays Bank: "The economy does not seem to be deteriorating quite as rapidly as it was."

A bigger boost to the government's fortunes was last Wednesday's ½ percentage point cut in bank base rates to 13½ per cent. In itself, the rate cut will do little to help Britain's hard-pressed companies and was too small to prompt a cut in mortgage rates.

But the government demonstrated that it could cut rates in spite of sterling's position as the weakest currency in the exchange rate mechanism of the European Monetary System. By Friday, the pound was no longer at the bottom of the ERM. According to one senior official, the cut "lifted a mood of paralysis" in government by showing that action was possible to stimulate the economy despite the constraints imposed by financial markets and inflation.

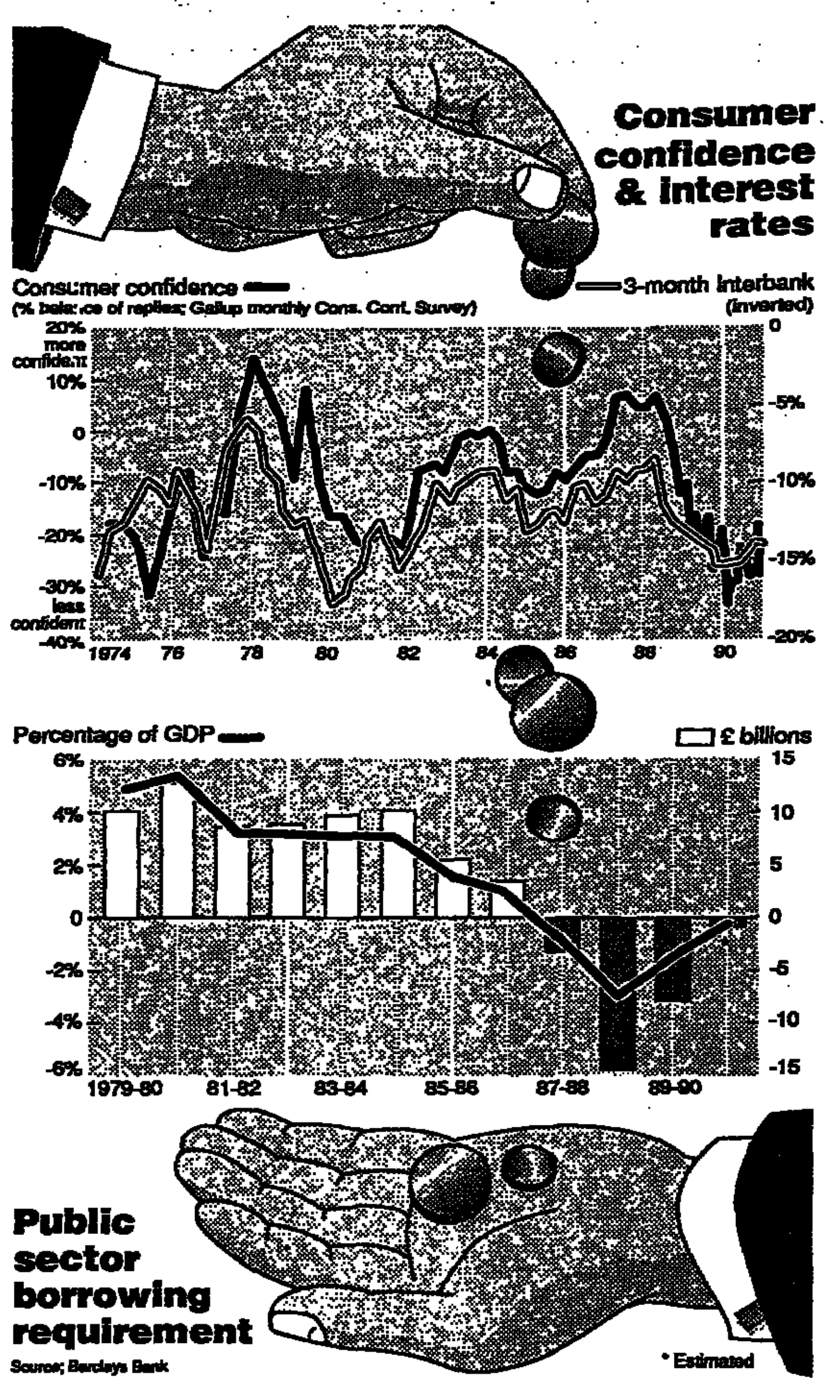
The Treasury and Bank of England have no illusions that the next fall in interest rates will be quick or easy. But last week's events could tilt the chancellor towards a Budget that is geared largely to facilitating further declines in borrowing costs.

Persistent "sales" notices in Britain's high-street windows illustrate how this recession reflects slack demand. The brakes on activity have been high interest rates, a savings ratio that has doubled to 8.8 per cent since the high point of the consumer boom in 1988 and falling consumer confidence.

Increasingly, since mid-1990, falling demand has affected industrial output. In spite of criticism of the DM2.95 central rate at which Britain entered the ERM, there is no conclusive evidence that industry is uncompetitive on international markets.

An important barrier to lower borrowing costs has been Britain's high inflation rate. But independent economists now generally accept that retail price inflation should be lower than the government's Autumn Statement forecast of 5.5 per cent in the final quarter of this year.

Wage inflation remains a problem, with recent survey data suggesting that settlements so far this year have clustered around the 10 per cent level. However, it is unclear how far such surveys capture cases where employees – often in small companies – are foregoing or deferring wage increases. Moreover, as last February's mortgage rate increases and April's 1990 poll tax demands drop out of the retail prices index, it should be easier for pay bargainers to negotiate settlements that fall in line with inflation.




The Bank of England's view is that underlying inflationary trends in Britain have stabilised. Provided sterling stays robust in the ERM, the way may be open for further interest rate cuts as inflation declines.

Lower interest rates are of vital political importance for the government. Once they translate into lower mortgage rates they will ease the burden of the important C1 and C2 social groups – the skilled manual workers and young professional classes – who were tempted into home ownership during the Thatcher years and who ensured the Conservative government's re-election in 1983 and 1987.

Interest rates, as the chart makes clear, have a potent effect on consumer confidence. For the C1 and C2s of the West Midlands and home counties, lower rates may be the only "feel good" factor in view.

Whatever happens, unemployment is likely to keep on rising for a considerable time yet. The City expects the jobless total to reach 2.5m by the end of this year. The recovery from the last recession showed how far unemployment is a lagging indicator of economic activity: it continued rising until 1986, long after the recession hit bottom in early 1981.

Last week's interest rate cut will have laid to rest any residual thoughts that Mr Lamont might be tempted to go down the path of fiscal activism in the Budget. The idea that the government might have to seek out fiscal and spending measures that mimic some of the effects of interest rate cuts was floated in some academic economic circles when it appeared that ERM membership might impose a lasting block on reducing base rates from their former 14 per cent level.

Such a course of action always was unlikely. As a Treasury minister since 1985, Mr Lamont has imbibed deeply of the 1980s orthodoxy that rejects fiscal fine-tuning as a way of economic management.

A Budget for lower interest rates will necessarily have to be prudent to appeal to financial markets. But this does not mean the Budget will be fiscally uneventful.

Mr Lamont is presiding over a momentous shift in the government's financial position. As shown in the chart, the large budget surpluses built up in the late 1980s are melting away under the twin impact of falling tax revenues because of the recession and rising government expenditure.

A clearer idea of the government's financial position will emerge later today in January's figures for the public sector finances.

It already seems clear that the Treasury's November forecast of a £3bn budget surplus for 1990-91 will not be met and the government's finances will move into deficit in 1991-92. The independent Institute for Fiscal Studies has estimated that there will be a £7bn revision to public finances in the coming financial year as the government shifts its expectations from a surplus of £3bn to a deficit of £4bn. Other commentators believe the deficit could be still higher, although the Treasury would be unlikely to express its worst fears in the Budget document.

Already the Treasury has been softening up financial markets to expect a deficit. In his New Year interview with the Financial Times, Mr Lamont said he saw "nothing wrong" with a modest deficit when output in the economy was below trend, although he underlined the government's commitment to a balanced budget over the medium term.

Although financial markets may be primed to accept a move to deficit, they would be unlikely to react favourably to a radical shift in the underlying fiscal position. This will act as a further constraint on the chancellor in his Budget.

The need for lower interest rates and the public finances, therefore, point to a broadly neutral Budget with little room for manoeuvre to cut taxes. This does not mean that Mr Lamont will not be able to change taxes to conform with Mr Major's aspirations for a classless Britain and the government's wish to win the next election.

The prime minister has indicated that the government should do more for the less well off. This goal could be achieved through raising the personal allowances in the income tax system by more than inflation. Higher income tax payers could be made to contribute to this largesse by such devices as reducing tax breaks on company cars or, more radically, extending National Insurance contributions to cover fringe benefits.

The government may also announce more incentives for savings. With hindsight, Mr Major's first and only Budget last year was a good example of how to achieve long-lasting political benefits for relatively little outlay.

Derided as dull at the time, the 1990 Budget included Tax Exempt Special Savings Accounts (Tessas) among a bundle of savings' incentives. These have been offered to the public since the beginning of this year with the result that Mr Major can be seen beaming out of promotional literature throughout the land.

With Westminster on election alert, Mr Lamont could well seek a similar result from next month's Budget.

# OBSERVER

## Rooms for review

■ National Westminster Bank has the prettiest and Midland Bank has the ugliest. What Observer is referring to, of course, are the boardrooms of the Big Four London clearing banks where over the next few weeks their directors will be holding inquests on why so much shareholders' money has yet again gone down the drain.

The first hearing starts on Friday in Sir Jeremy Morse's fifth-floor art deco boardroom at Lloyds. There is not a picture of Sir Jeremy in sight, although he has been chairman longer than any of his predecessors save Sampson Lloyd and Lord Wardington. Last week the directors' seats were borrowed by sales staff for a lecture on the dos and don'ts of being a crack troop – presumably some sort of warming-up exercise.

NatWest's boardroom is much more like a country house dining room with heavily upholstered chairs, luxurious curtains and modern art. The serious banking portraits have been relegated to the corridor outside. By contrast Barclays, camping out in the Royal Mint's Johnson-Smirke Building, has stuffed its makeshift sanctum full of portraits of past and present chairmen.

Of all the boardrooms, Midland's harks back most to the glorious days: walnut lockers for directors' top hats and canes, and so long that it has had to be soundproofed with a giant tapestry. Directors at one end could not hear what was being said at the other.

## Divvying up

■ Forget the profits. Much the most important item on the agenda of the current crop of bank board meetings is the setting of the dividend. Will it go up, or down?

For the first time in more than 40 years there is genuine concern that one of the big four clearing banks (Midland) *may* cut its dividend. And interest in the Midland's predicament is the greater because nobody can evidently recall when last a big UK clearer actually made such a cut.

All that is remembered is a counter-example. When National Westminster's exposure to the UK property market brought serious problems in 1974, it raised its dividend by 12½ per cent and repaired its balance sheet a couple of years later with a rights issue.

True, the history of Barclays written by the late Anthony Tuke, its chairman in the 1950s, says four of the Big Five UK clearers reduced their dividends in the early 1930s. But which were they? Tuke reveals only that Barclays held its payment, and none of its rivals will now own up to a cut.

Nevertheless, since Tuke reports that his bank did not enjoy "any evident advantage" and that none of the others suffered any detriment, perhaps Midland should cut its dividend after all.

## Some mistake

■ Meanwhile, bankers just do not seem to be as accurate as they used to be.

Take Barclays again. It had been gearing itself up to celebrate its 300th anniversary next year. Academics and researchers had been hired to prepare a further company history for the tercentenary. Unfortunately, it now turns out that the great celebration should have taken place last year, not in 1992.

Sir John Quinton, Barclays' chairman, is especially puzzled. Every morning on entering the bank's Lombard St headquarters – currently being rebuilt – he passed a plaque commemorating the


bank's founding in 1692.

While Barclays has to be commended for admitting this rather embarrassing error in its latest staff magazine, I fear that Sir John has just made another mistake.

John Freame, a Quaker goldsmith who founded the forerunner of Barclays in 1690, did not do set up shop under the sign of the Spread Eagle, as Sir John insists.

The first logo was "three anchors", and it was not until 1728 that Freame bought the current headquarters in Lombard Street known as "The Black Spread Eagle".

Or so says yet another history of Barclays, published in 1926 – if it can be believed, of course.

## Nought trouble

■ Barclays is not the only bank that has problems with figures. It seems that humble employees of the mighty Deutsche Bank occasionally forget the odd nought.

An American customer claimed last week in a Frankfurt court that he had deposited U$100,000 in cash at Deutsche's Macao branch in July 1989. The bank insists it was only $10,000, as the unhappy American discovered when he returned.

Germany's biggest bank acknowledges its Chinese teller indeed made the receipt out for $100,000 – but the error was spotted subsequently. Remarkably, Deutsche's distinguished lawyers argue that "anyone who does business regularly with China has often experienced the fact . . . that the Chinese easily make a mistake with the (Arabic numbers) system. Decisive mistakes are even to be expected of experienced translators. This can also happen to a bank employee."

And what of the receipt? The slip of paper marked receipt in three languages is in this case worthless, according to Deutsche Bank. The chit apparently has the wrong sort of stamp, and although initialled by the teller, has not been signed by two authorised signatories of the bank.

## Self-help

■ Finishing lunch in the restaurant he used every working day, the famous self-made financier was approached by a smart 25-year-old who said his ambition was to follow in the great man's footsteps, and then added:

"I've heard you say on TV that people helped you early on, so I hope you might help me. Tomorrow I'm lunching here with my first potentially big client. We'll be at that table over there . All I'm asking is that, as you go out, you nod at me and say: "Hello David". It wouldn't take you a second but, to me, it could make all the difference."

Touched, the financier decided to do better. On leaving next day, he went over to the table where the two were conversing, held out his hand, and smiled: "Hello David, good to see you." Whereupon the young man looked up and replied: "Oh, not you again! Can't you see I'm busy?"

**Quentin Peel** on the disarray confronting the man charged with bringing order to economic chaos

# Soviet Union through the looking glass

What on earth is happening in the Soviet Union? With every passing day the erstwhile superpower looks more and more like a late 20th century version of Alice's Wonderland.

On the one hand, President Mikhail Gorbachev continues to play his role of world statesman, calmly and consistently attempting to broker peace plans in the Gulf war.

On the other, the domestic scene staggers from one fantastic farce to the next, against a backdrop of economic disintegration and political chaos, compounded by ethnic strife and wild propaganda.

Mr Valentin Pavlov, thrust into the limelight as Mr Gorbachev's new prime minister, charged with bringing more conservative order to the economic chaos, lashes out at some extraordinary international conspiracy of western banks, supposedly hell-bent on destroying his economy before he destroys it himself.

Across the road in the Russian government, bastion of Mr Boris Yeltsin, the greatest political rival to Mr Gorbachev, a deputy prime minister resigns, and the whole government trembles, over another absurd affair involving an alleged deal to import $7bn worth of consumer goods, in exchange for Rbs140bn worth of investments in the Soviet economy, all through an unheard-of trading company.

Back in the Kremlin, Mr Gorbachev issues sweeping decrees, first to put Soviet army patrols with police on the streets of every big city, and then to allow the KGB, the still all-powerful secret service, unbridled access to every business and bank account in the country. Half the republics protest and several refuse to let the decrees be implemented, while the constitutional compliance committee says they are full of legal holes.

The fledgling business community is up in arms. As for the poor Soviet citizen, he has seen his savings ripped out of his hands, or frozen in the bank, by the government decree abolishing Rbs50 and Rbs100 banknotes; he knows he is about to face swingeing price rises of up to 200 per cent; and as a result there are huge queues, as consumers attempt to get rid of what cash they have left on the very few goods in the shops.

So what is happening? The country is facing two traumatic upheavals simultaneously. First, there is a battle for power between the Communist party led by Mr Gorbachev on the one hand, and a motley array of democratic and nationalistic forces on the other, for whom Mr Yeltsin is the best available leader at the moment.

At the same time, the country is still set on a path of fundamental economic reform at a time of unprecedented economic collapse.

Thrust into the centre of this confusion is the unlikely figure of Mr Pavlov, the former minister of finance, who had clearly impressed the Soviet leader with his willingness to speak out and disagree with his colleagues in the former government. Even his unfashionable flat-top crew cut, and his self-confident, jokey style, testify to his capacity to be a loner. Now his first actions suggest that he is also quite ready to behave like a bull in a china shop.

"Don't underestimate Mr Pavlov," said Mr Boris Fyodorov, his former counterpart as Russian finance minister. "He is intelligent, and quite capable of being a reformer if he is told to be, and a conservative, if he is told to be that."

"Everybody has been inclined to dismiss him as some kind of faceless bureaucrat," says a leading western observer. "He is not. He has wanted this job for a long time. He has ideas, and he is determined to be decisive. He is prepared to be unpopular. It may not work, but he is doing some of the right things, and in the right order."

What Mr Pavlov has done within three weeks of his appointment, is introduce drastic money reform, by abolishing large denomination banknotes. That has hit the savings of millions of ordinary people, and not just the big black-marketeers it was supposed to affect. To make it less painful, Mr Pavlov will have to agree to repay more of the confiscated cash – which means that instead of taking up to Rbs26bn out of circulation, as he hoped, the end figure is more likely to be between Rbs10bn and Rbs12bn.

Any day now he is set to go ahead with price reform, meaning huge price rises for many basic goods, although few are available in state stores. To mitigate the unpopularity, he has promised to pay compensation to wage-earners and pensioners in advance – up to Rbs60 in every pay packet,

Valentin Pavlov: thrust into the limelight

according to the labour minister. That will inevitably undermine much of the economic effect of the price reform.

And there is more to come. He has promised plans to modernise heavy industry. He has promised legislation to "de-statise" (but not radically privatise) state enterprises, proposing to issue "people's shares" to the workers to switch from state ownership to "collective ownership". He wants to switch the emphasis back from expansion of consumer goods production, to saving heavy industry from collapse.

**The erstwhile superpower looks more and more like a late 20th century version of Alice's Wonderland**

He is also promising to introduce a partially convertible rouble, to give every citizen access to foreign exchange. But he warns that such a pot of gold is buried at the end of a rainbow labelled political stabilisation – and end to the rebellion of the republics.

It all amounts to a reformist, but conservatively reformist, state-centred programme, very different from the radical transition to a market advocated all last year by Mr Gorbachev's closest economic advisers, and spelt out in the ill-fated Shatalin Plan. It is also clearly designed to appeal to a population battered by economic upheaval, miserable shortages of basic foodstuffs and consumer goods, and baffled by months of political bickering which has left the vast majority bitter and apathetic.

Yet all of this has been presented now behind the smoke-screen of Mr Pavlov's allegations of an international conspiracy, of Mr Gorbachev's drastic decrees to stamp out "economic sabotage", and of interminable propaganda in the official media against the supposed "Mafia" which controls the shadow economy.

That is where the struggle for political power comes in. For Mr Pavlov is quite clearly attempting to implicate the opposition movements, the radical pro-marketeers, the new breed of businessmen, Mr Yeltsin himself and the whole Russian government, in some sort of fantastic conspiracy. And he knows that millions of ordinary Russians and their fellow Soviet citizens may be quite prepared to believe it.

Mr Pavlov claimed that republican radicals, black-marketeers and unnamed western banks were all conspiring to flood the Soviet economy with hoarded roubles, a good proportion in the large Rbs50 and Rbs100 banknotes. That, he said, was why he had to act on money reform.

Enter Mr Gennady Filshin, the luckless Russian deputy premier in charge of economic reform. He was convinced he had found western businessmen prepared to provide desperately needed hard currency consumer goods, in exchange for payment in roubles, which they would spend on investment in the Soviet economy. They were prepared to wait for eventual convertibility of the rouble somewhere in the future to get hard currency returns.

It always seemed an unlikely story. When it transpired that the deal totalled $7bn, in exchange for Rbs140bn, rather more money than the entire amount of cash in circulation in the Soviet economy, it was clear that the whole plan existed only in the realms of fantasy. Or possibly as a deliberate "sting" by the KGB. Mr Filshin has paid the price of his gullibility and resigned.

Round One has gone to Mr Pavlov, and behind him, the KGB. "It is as if market economics has simply gone out of the window, and we have KGB economics instead," says one embittered businessman.

But time is not on Mr Pavlov's side. He is quite right to recognise that the country cannot allow its heavy industries to disintegrate. The entire energy sector, including oil, coal and electricity, is in a state of collapse. The world's largest energy producer is now speculating about becoming an oil importer by 1995. The communications network is grinding to a halt. Steel plants cannot get coking coal, and the massive state engineering plants cannot get steel. The petrochemicals industry is operating at a fraction of capacity thanks to pipeline closures, fires and explosions.

Professor Nikolai Petrakov, the market economist who was Mr Gorbachev's economic adviser until last month, says economic reform has been subordinated to politics "once again". He is almost certainly referring to 1968, when the invasion of Czechoslovakia brought all hopes of reform back in Moscow to a halt. But he also delivers a warning: "The economy will revenge itself on us in the end."

*LOMBARD*

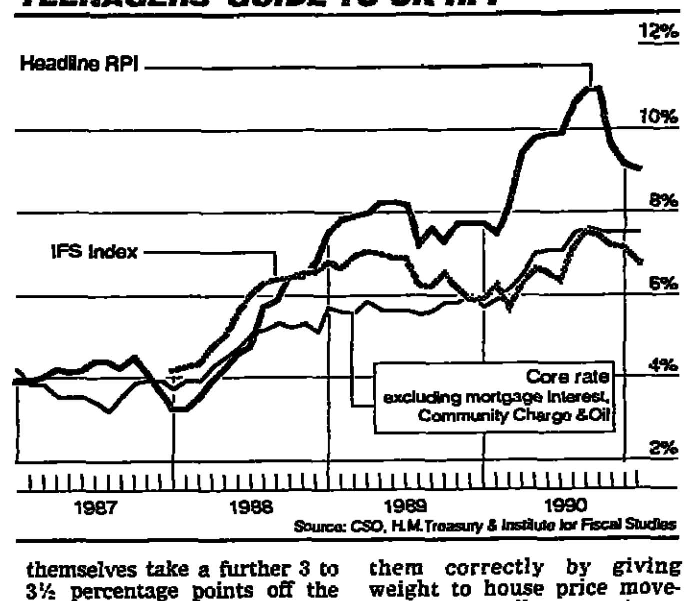
# A nearly sure bet on UK inflation rates

**By Samuel Brittan**

Faithful readers will know how sceptical I am of forecasts and will not be surprised to hear that I take very few bets. But one bet I have. That is with a Bundesbank official on whether the headline UK inflation rate will fall by next December to the 5.5 per cent predicted by the British Treasury for the fourth quarter of 1991. If the headline rate falls by less than this, he will discover a new, and I hope good, restaurant in London. If by more I shall make a similar discovery in Frankfurt.

There is of course no such thing as a perfectly sure bet. If there were another Middle East shock or John Major were to be bullied off the ERM parity by the "Liverpool Six" (economists who have demanded large interest rate cuts irrespective of sterling) all reasonable assumptions go by the board.

**TEENAGERS' GUIDE TO UK RPI**




Source: CSO, H.M.Treasury & Institute for Fiscal Studies

But looking at the main economic factors I am confident. The Bundesbank official, like so many others at home and abroad, took the retail price index seriously and believed a fall from last autumn's peak headline increase of of 10.9 per cent to 5.5 per cent next winter was improbably steep.

Unusually steep price reductions in the winter sales, together with falls in food prices, helped to reduce the headline UK inflation rate to 9 per cent this January. But they were offset by other influences – for instance higher utility prices and passenger fares. Indeed almost the whole of the reduction in the headline comparison since its autumn peak can be attributed to a smaller mortgage interest effect and the shake-out in oil prices since their post-Kuwait high.

What lies ahead? There is not much mystery about the February RPI numbers, as anything that can happen in the last part of this month will come too late to affect the index. The main influence has been a further fall in oil prices which should take the headline rate down to, say, 8.8 per cent.

Later in the spring developments should be more dramatic. According to Midland Montagu Research, the unwinding of mortgage interest and poll tax effects will themselves take a further 3 to 3½ percentage points off the headline RPI by the end of this year. The biggest drop will be in the April figure, published in May, when both last year's poll tax effect and the last mortgage increase disappear from the annual comparison. This will take nearly 2 per centage points off the headline rate. Peace in Kuwait would bring forward the timetable.

Thus we are down to a 5 to 6 per cent headline inflation rate by the end of the year purely due to the mechanical effects of reversing past distortions. Genuine downward pressures on inflation, arising from the recession, could take next December's RPI increase to well below 5 per cent.

If we look beyond the headlines, what is really happening to inflation? If we take off mortgage interest payments, the poll tax effects and the oil price influence, and look at the "core" inflation rate shown in the chart, then inflation reached a plateau of 7.5 per cent in the middle of 1990 on which it has since remained.

It is, however, possible to go one better than just remove mortgage interest and the poll tax from RPI comparisons. The Institute for Fiscal Studies has a corrected RPI, which includes owner occupiers' costs, and attempts to assess them correctly by giving weight to house price movements as well as mortgage interest rates (the former are not represented at all in the RPI). The weakness of the IFS index in recent months is that – like the headline rate – it was influenced by a temporary oil price surge, now rapidly waning in impact.

The IFS Index started to rise much earlier in 1988 than the official RPI, under the influence of rising house prices. It reached a peak last September and has since fallen to 6.7 per cent this January. The range of 6¼ to 7½ per cent now suggested by the "core" rate and the IFS index together gives a reasonable picture of underlying inflation.

The underlying as well as the headline inflation rate could well drop below 5 per cent by year-end, once the wage trend changes. In the 1980-81 recession, pay increases were at first slow to move, but then dropped dramatically. Wage bargainers will be able to rationalise the changes in terms of headline cost of living figures, while economists will talk about the labour market shake-out and exchange rate constraints. The ultimate prize will be a rate of inflation low enough to join the high-speed Schengen group in the approach to monetary union.

# *LETTERS*

## BT is 'pursuing the right principle'

*From Mr Malcolm Argent.*

Sir, There has been considerable debate in your columns over the last few days about aspects of British Telecom's case to government and Oftel, in the context of the current liberalisation review.

This has centred in particular on the issue of whether BT is justified, over time, in seeking a rebalancing of its tariffs between call charges and the access network (the rental charge), and on the views of the economists we have employed to help us prepare our case in this matter.

We employed economists to support and develop our reasoning on three aspects of our case:

- The conceptual case for rebalancing.
- The cost of capital to BT.
- The rules which should operate to control prices in regulated markets.

The relevant economists have supported us throughout on each of these three aspects and, in particular, we believe that the conceptual arguments against rebalancing have now been convincingly refuted.

It is misleading of Hugo Dixon (February 11 and 13) to point to the fact that three of the experts we have consulted failed to give us full backing.

They have backed us fully on the points on which they have been consulted and on which we quoted them in our response to government, and they have rightly declined to comment on aspects on which they were not consulted.

It is unreasonable of Mr Dixon to suggest that we should make public the detailed financial figures underlying our calculation of the size of the imbalance. The figures are commercially highly sensitive, and the FT would not, I suggest, expect any other company to make information of a similar nature public.

The public debate is whether the principle we are pursuing is right, which we believe we have clearly demonstrated; the quantification of the extent of the rebalancing is then a matter for private discussion with the DTI and Oftel.

Finally, our proposed approach of pricing packages – with customers choosing the package that meets their needs – not only avoids the political problems inherent in crude rebalancing, but also, and for us most importantly, responds to the needs of the market place and helps us to serve all our customers in a more flexible and responsive way.

Malcolm Argent,
*Group director and secretary,*
*British Telecom,*
*81 Newgate Street, London EC1*

## Changes in US-European relations

*From Mr Andrew Shouler.*

Sir, May I make some comment on Peter Wood's geopolitical analysis of Atlantic relations ("After the Gulf war is over, what then?" – Letters, February 5):

1. The UK's relationship with Europe may conceivably have been "a critical determinant of our commerce, culture, institutions" and policies, but here "relationship" is a function of proximity and parallel histories, rather than mutuality of purpose.

2. If US-German relations return to the fore once the Gulf war is over, it will be by force of pragmatism – nothing out of the ordinary or "special" – as between two sides of the G3 economic triangle, recognising the pivotal and dominant German role in Europe and the EC, and neighbourliness with the Soviets, rather than natural empathy.

3. Is it not incredible at a time when a US-British axis is at its most evident, despite the UK's supposed "middle-ranking" status in the view of the liberal intelligentsia and by per capita measure of wealth, that the notion of a "special" relationship – rather than one driven by perceptions of political necessity – should be disputed?

Andrew Shouler,
*155, Conway Gardens,*
*Grays,*
*Essex*

## Transatlantic law firm links

*From Mr Colin Fergus.*

I much enjoyed Robert Rice's article, "Difficulty in defining a European legal eagle", (February 11).

The "public interest" defence to protectionism does not hold up under close scrutiny. Much of the drive to internationalisation on the part of US law firms is driven not by the lawyers, but by their clients.

They have demonstrated a marked preference to use the attornies whom they know and trust, especially when exploring "the European unknown".

If forced to use unfamiliar local counsel, I do not imagine they will turn to the same attornies whom I might use if I were buying a vacation home in the Dordogne.

The protectionist policy seems designed rather to protect a small percentage of the country's lawyers, who practise what one might term "premium" work.

Ironically, these attorneys, as well as their prospective clients, would probably do appreciably better – both professionally and financially – if competition forced them into associations with law firms from Britain and the US.

Colin Fergus,
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## Fax service

LETTERS to the Editor may be faxed on 071-873 5938.

Letters should be clearly typed and not handwritten. Please set the fax machine for fine resolution.

Readers may also use a direct computer-to-computer link, but should first telephone our computer department on 071-873 4893.

## More gloom on new car sales

*From Mr David Gent*

Sir, In his report on new car sales (12 February), John Griffiths credits the Retail Motor Industry Federation with forecasting a 1991 market of "between 1.75m and 1.8m".

Sadly, even this figure is now too optimistic.

In a letter to vehicle manufacturers and importers in January, the Retail Motor Industry Federation advised them that it saw no prospect of new car sales exceeding 1.6m to 1.7m at best this year, unless there are significant cuts in interest rates.

David Gent,
*Director General*
*Retail Motor Industry Federation*
*201 Great Portland Street*
*London W1*

## Costly result of rail chaos

*From J D Ecklin.*

Sir, As a regular commuter on British Rail, I was most interested in Richard Tomkins' article, "BR comes under pressure to prevent further chaos", (February 13).

As a commercial organisation, BR is undoubtedly right in saying that, statistically, it is not cost-effective to take measures to counteract such rare events as severe snow in the south of England.

But the knock-on effects to the rest of the economy are so great that such an investment needs to be made in the national interest; and, hence, funds should come specifically from government sources and not be lost in the general subsidy to BR.

One problem which Mr Tomkins did not mention, however, is regarding BR's unique mentality. On the sixth night of snowy weather, BR was still claiming that 30 per cent of its trains were not working. One would have thought, therefore, that some 30 per cent of drivers and guards were looking for a train to operate?

Yet the 17.50 and the 18.02 Waterloo-Guildford via Cobham trains were still sitting on adjoining platforms until 18.40, apparently "awaiting a guard".

J D Ecklin,
*1, Sole Farm Close,*
*Great Bookham, Surrey*

## Cash confusion in the USSR

*From Ms Sue Wake.*

Sir, Monetary confusion in the Soviet Union is not confined to the rouble.

Paying for coffees in the hard-currency-only Mezhdunavodnaya Hotel, two weeks ago, I tendered a £20 note. My change consisted of a £10 note, six dollars, two French francs and a deutschmark.

My Russian colleagues had previously been asking about the Ecu.

"Wouldn't some coins be useful?" one of them suggested.

Sue Wake,
*Worldwide Information,*
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FINANCIAL TIMES
Monday February 18 1991



## Concern about British economy and poll tax makes Tories cautious

# Major leaves election options open

By Alison Smith

THE UK Government has brought forward its planning of future legislation to leave open for as long as possible the options of calling a general election either in June or October this year or after a final session of parliament next year.

The cabinet is expected to agree the outline of a programme on a contingency basis later this month, before decisions about the timing of the next general election are taken.

Many of the bills approved by the cabinet committee on future legislation, chaired by Mr John MacGregor, leader of the House of Commons, as suitable for the end of a parliament would be dropped from a post-election programme.

Continuing concern about the poll tax and the economy are the main reasons for caution about election timing among Tory MPs, in spite of weekend opinion polls putting the party slightly ahead of the opposition Labour party.

The opposition is stepping up its attack on both issues in the coming week, with debates in the House of Commons and the publication of a paper which looks at UK companies which are suffering the current recession despite being well-managed. A Harris poll for the Observer newspaper gave the Tories a lead of four points over Labour, with the two parties on 46 and 42 points respectively.

An NMR poll for the Independent on Sunday showed the Tories with a 8-point lead ahead of Labour on 40 per cent. Both polls gave the Liberal Democrats 8 per cent.

Ministers believe, however, that the polls after the Gulf war will prove volatile, and some are resigned to Labour taking the lead again, perhaps by as much as 10 points.

Mr John Major, prime minister, and party managers will have noted that, according to the Harris poll, there is much more widespread enthusiasm for an early election among Labour supporters than among Tories.

Whatever the government's plans for forthcoming legislation a place is to be allocated for a bill dealing with the controversial poll tax, the locally levied *per capita* tax for services, in the next parliamentary session, whenever the election is called, even though it is not yet known what the bill might do.

John Major: wary of Labour party enthusiasm

Mr Michael Heseltine, environment secretary, yesterday appeared unenthusiastic about the possibility of a radical shift in education spending from local to central government. This is an option favoured by many Tory MPs but Mr Heseltine has said it should be seen as a "last resort".

It would not, he said in an interview on BBC radio, "enable you to bring about a change in the short term." He added, however, that phasing the change so that it could be financed by economic growth could be a "relatively painless process".

Mr David Blunkett, Labour party local government spokesman, said Mr Heseltine's remarks about not parading differences in public signalled a cabinet split on what to do about the poll tax.

He went on the say that all the government could offer on the issue were "confusion and incoherence".

# Bleak time for UK retailers as sales fall

By Rachel Johnson, Economics Staff, in London

SALES VOLUMES in Britain's shops have dropped on an annual basis for the first time since the Confederation of British Industry and the Financial Times began their distributive trades survey in 1983.

The January survey introduces a week likely to be dominated by gloomy news on the domestic economy, providing ammunition for the opposition Labour party's expected attack tomorrow on the government's record in a House of Commons debate on the economy.

Retailers were having a bleak new year with no foreseeable respite in sight, the CBI said. Sales and orders in the other two sectors, wholesaling and motor trades, also continued to weaken to levels below those recorded last year.

Last week's ½-point cut in interest rates was unlikely to have any "real effect" on business conditions, the CBI said.

With the recession deepening throughout the country and and consumer spending dropping in real terms, the impact on the retail trade was "becoming more serious," said Mr Nigel Whittaker, chairman of the survey panel.

After two successive months of scant sales growth, levels were running below last year's and the outlook this month was for "even worse" demand.

Evidence that the retail recession is rapidly deepening is to be emphasised by today's provisional retail sales data for January, expected to show a sharp decline in volumes of up to 2 per cent on the month.

Wednesday's monetary statistics should show a sharp contraction in the rate of growth of the money supply as demand pressures have eased.

It is Wednesday's gross domestic product data for the fourth quarter of last year, however, that are expected to indicate that lower interest rates have been long overdue.

These are expected to give the first official confirmation of the recession according to the standard definition – two successive quarters of negative growth.

The consensus of economists' forecasts is for a decline of 0.9 per cent in the fourth quarter, after a fall in the third quarter.

Although the recession is acknowledged to be both more severe and longer than the government has predicted, private sector economists have begun to foresee a recovery starting at the end of this year.

According to Mr Alan Davies, head of economics at Barclays Bank, the "economy will start to grow at the end of this year to reach a sustainable 2-3 per cent in 1992" if inflation fell below 5 per cent and interest rates were cut to 11 per cent.

**Pay rises awarded to the top directors of small British companies still bear little relation to company performance, according to a survey from the Incomes Data Services' Top Pay Unit, published today. With more than half of the directors receiving pay rises higher than the increase in company pre-tax profits, the awards fly in the face of moves by the Institute of Directors and others to try to bring boardroom pay rises in line with company performance.** **Page 6**

# S Korean current account falls into deficit

By John Ridding in Seoul

SOUTH KOREA'S current account, which has consistently recorded large surpluses since the mid-1980s, fell into abrupt deficit last year, according to figures announced by the Bank of Korea.

The central bank reported a deficit of \$2.1bn in 1990, roughly in line with a forecast last November, compared with a surplus of \$5.1bn in 1989. It attributed the sharp swing to the increased cost of oil imports, higher imports of capital equipment and consumer products, and a continued sluggish performance by exports.

The bank said another deficit – of between \$2.5bn and \$3bn – was forecast for this year.

While a deterioration in the current account had been expected last year, it turned out to be more severe than expected and the speed of the adjustment was a cause for concern, it said.

Exports, which pushed up current account surpluses as high as \$9.85bn in 1987 and \$14.27bn in 1988, increased by only 3 per cent last year to \$63.24bn. The sluggish performance was blamed on the depreciation of the yen in the first half of the year, which reduced Korean manufacturers' competitiveness against their principal rivals.

The loss of competitiveness was also blamed on increased labour costs, quality problems and delays in introducing new products.

With respect to imports, a sharp increase in purchases of oil and other petrochemical products, from \$5.7bn in 1989 to \$8.8bn last year, was the principal factor in the 14.6 per cent increase in overall imports to \$65.1bn.

South Korea imports all its crude oil, which accounts for about 50 per cent of total energy requirements.

Within the overall current account figures there are important changes in trading patterns with Japan and the US, South Korea's principal economic partners.

Korea's trade deficit with Japan widened sharply, increasing by almost 50 per cent to \$5.94bn.

The rise was largely the result of increased imports of capital equipment and components and a slowdown in Korean exports of textiles and consumer electronics.

At the same time Korea's trade surplus with the US, which has fuelled trade friction over recent years, fell 49 per cent to \$2.42bn. Exports to the US fell 6.2 per cent, reflecting weakening demand for consumer products such as cars and electronics, while imports from the US grew 6.5 per cent.

South Korea's trade surplus with the European Community also shrank, falling \$468.3m to \$433.3m.

The overall trade deficit for 1990 was \$1.85bn, compared with a surplus of \$4.6bn in 1989.

Invisible trade suffered a deficit of \$493.1m, compared with a surplus of \$210.8m the previous year.

## Airbus expects orders to plunge

Continued from Page 1

Mr Jean Pierson, the Airbus chairman, indicated in Toulouse last week that only two firm orders had been cancelled by airlines so far this year and he expected about 10 firm orders to be cancelled in the next two years.

More airlines, however, were likely to seek short-term deferment of some deliveries because of their current financial difficulties and the fall in travel demand.

Airbus has so far picked up only three new orders so far this year, two for A300 wide-body aircraft from Ansett, the Australian carrier, and one A310 wide-body aircraft from Singapore Airlines.

But slower growth is unlikely to force significant organisational changes at Airbus to turn it into a public limited company. "We are where we were two years ago," Mr Pierson said.

"We have not made any progress on this front and it is unlikely we will make much progress for another three to four years."

## Allied attack within days

Continued from Page 1

the eve of talks today in Moscow between President Mikhail Gorbachev and Mr Tariq Aziz, the Iraqi foreign minister.

Following contacts with Moscow over the weekend, Mr Baker said he believed the Soviet Union was going to stick to the existing joint position of supporting an immediate withdrawal by Iraq.

Mr Baker added that there was "nothing to be lost by talking and, if it results in Iraqi withdrawal, more power to whoever is doing the talking – as long as there are no suggestions of a pause or ceasefire or something that would permit Iraq to reposition, to strengthen its military position on the ground, which would result in higher coalition casualties."

President Mikhail Gorbachev wrote at the end of last week to allied leaders urging that the ground offensive should be delayed until after his talks with Mr Aziz.

The US apparently declined to provide a formal pledge, although it did privately indicate that an attack would not come over this period.

US officials said that no decision had been made on when to start a ground offensive. However, it is likely that a broad timetable has been agreed and now just awaits the formal go-ahead from Mr Bush.

Mr Dick Cheney, the US defence secretary, said that if Iraq withdrew unconditionally from Kuwait "it would be a clearcut victory for the coalition."

He noted that Iraq's nuclear capability for years to come had been destroyed and its strategic military capability had been "very, very severely damaged."

President Bush continues to enjoy the overwhelming support of the American people for his handling of the Gulf war.

A Washington Post/ABC News poll shows that 78 per cent approve of the war, around the highest level of the past three weeks while 81 per cent believe the bunker hit on Wednesday with the loss of civilian lives was a military target.

## Georgia seeks western support

Continued from Page 1

an autonomous republic, sparking off a wave of violence in which 29 people are claimed to have died.

Mr Ghamsakhurdia denounced the Ossetian nationalists as "the agents of Moscow".

He said they were being used by Mr Gorbachev as a pawn, and Soviet support for them would be traded by the president if Georgia agreed to take part in a referendum on the maintenance of the union, which it has refused to do.

On the Ossetian side, Mr Alun Chochiyev, the acknowledged leader of its nationalist movement, said the declaration of a republic would not be revoked and that the fight would continue.

● Mr Boris Yeltsin, president of the Russian republic, renewed his attack on the Soviet leadership, accusing President Gorbachev of freezing reform and moving to roll back democratic changes, the Postfactum news agency said at the weekend, Reuter reports from Moscow.

# Israel tries to play down Bush protest over envoy

By Hugh Carnegy in Jerusalem

ISRAELI ministers yesterday sought to play down the significance of an unprecedented protest by President George Bush over a press interview given by the Israeli ambassador in Washington, criticising US policy towards Israel.

However, the row exposed deep differences with the US – as well as splits within the Israeli government – which are likely to have a strong influence on post-war moves to achieve a settlement of the Arab-Israeli dispute.

Mr David Levy, foreign minister, and the office of Mr Yitzhak Shamir, prime minister, expressed regret over the incident but said it should not be allowed to disrupt relations. Mr Bush had sent a cable to Mr Shamir, condemning remarks by Mr Zalman Shoval, the ambassador, as outrageous and beyond the bounds of acceptable behaviour.

There was no sign that Mr Shoval, a former MP from Mr Shamir's Likud party who took up his Washington post four months ago, would be recalled, as demanded by the Israeli opposition Labour party. Mr Shoval said in the interview that Israel was being given "the run-around" by Washington over federal loan guarantees to help Israel absorb Soviet Jewish immigrants, which have been agreed but not delivered. He also complained that Israel had not received "one cent" in aid for war damage and costs, and demanded compensation, especially given Israel's restraint in not having retaliated for Iraqi missile attacks.

The White House reaction was the sharpest, but not the first, exchange with Jerusalem over Israeli demands for aid. Last month, a figure of \$13bn mentioned by Mr Yitzhak Moda'i, finance minister, received short shrift. A more modest suggestion by Mr Moshe Arens, defence minister, made in Washington last week, was also reported to have received a frosty reception.

Israel is desperate to secure extra funding because the scale of immigration means it must raise as much as \$20bn externally in the next few years. The loan guarantees referred to by Mr Shoval are only for \$400m, but are regarded as a vital first step towards access to much larger lending at preferential rates.

The State Department and the White House, however, feel that Israel is not showing proper gratitude for the allied assault on Iraq, Israel's biggest strategic threat.

They also appear determined to tie any extra aid to political movement by Israel on the issue of the occupied Arab territories.

The \$400m loan guarantee is dependent on Israel not spending the funds on settling Soviet immigrants in the West Bank and Gaza Strip. To prove this, it has to supply details of its housing plans for controversial Jewish settlements in those territories.

The loan accord was about to be signed last week when a report alleged Israel had clandestine plans for a big expansion of settlement housing.

So there are signs that, beneath US praise for Israel's policy of restraint, Washington and Mr Shamir's government are heading for a post-war clash on political issues.

Mr Shamir has made plain he intends no concessions on the occupied territories, which are likely to be the key issue in any Arab-Israeli breakthrough. The US administration will have clear leverage, in the shape of financial aid, and looks set to exercise it, as in the case of the loan guarantees.

Despite that example, Mr Shamir said defiantly yesterday that Israel had never accepted political conditions on aid.

He is likely also to appeal for funds directly to the US Congress, where Israel can still mobilise great support.

An intriguing sidelight is a split between Mr Shamir and Mr Levy. The latter, who wants Israel to be more flexible over the issue of peace talks, spoke against Mr Shamir at the weekend for having arranged Mr Arens' Washington talks last week behind his back.

# The rosy optimism of bankers

By Anthony Harris

THE SCRIPT for the present slump in the English-speaking world was written a few years ago in Illinois. For a long time, one of the soundest reputations in US banking had been enjoyed by Continental Illinois. In the 1930s, its headquarters building in Chicago was taken as the exact model for the Federal Reserve bank of Illinois, just across the street, on the grounds that when the panic died down and the Feds were wound up, Conti could conveniently take the building over.

Then this staid reputation began to chafe. By the mid-1980s, Conti was one of the world's fastest-growing banks, with the slogan "The bank that likes to say 'Yes'". With the collapse of Penn Square, to which Conti had said "Yes" louder than anyone else, the management tried to backtrack and Conti became the bank that has to say "No". It was too late, though; within a short time Conti was the most notable casualty of soft oil prices and it was the twin building across the street that was in charge.

Now monetarists, such as the six who wrote a much-discussed letter last week, argue that while policy can never protect individual bankers from their own folly, it can and should prevent such delusions from sweeping through the whole system and so threaten us with a slump when the bubble bursts. The money numbers will give warning and policy will be tightened before the real damage is done. This leads logically to their rejection of the ERM, in which interest rates are governed by exchange market pressures rather than by domestic conditions.

There is less in this than meets the eye. Monetarism looks good on paper, but it has a rotten track record; its triumphs are all triumphs of hindsight. There are too many rival ways to measure the money supply, so that different schools in this schismatic faith will recommend different policies.

The growth of broad money, which gives the best warning of bank lending follies, is very difficult to control because it tends to accelerate when interest rates are raised and for quite a long time. The record speaks for itself. The US has managed to get into even worse trouble than we are now in, despite a regime which is nominally monetarist; and we did almost as badly in the early 1970s.

At the same time, most members of the ERM have done much better, despite cyclical divergence and strains within the system. The trouble invariably starts not with the technical regime, but, as in Illinois, with the rosy optimism of bankers. Mania inflates the bubble; when it gives way to depression, we have the slump. The trouble is that bankers lead sheltered lives. They congregate in tight little money centres and talk mainly to other bankers. The result is that their delusions quickly spread. I can remember being told by a Bank of England director in the early 1970s that worry about property lending, growing explosively at the time, was quite misplaced "because it's all in real values, after all". Later, there were painstaking lectures from commercial bankers about how sovereign borrowers could not default (it was thought to be illegal), about how syndication had abolished risk, while the international interbank market had abolished liquidity problems. Above all, floating interest rates were seen in countries where they were as much a novelty as abolishing the fundamental banking risk – that of being caught by rising rates when you borrow short and lend long.

Now all these collective delusions have been exploded. Market values are volatile, not real; sovereign borrowers default, but on a bigger scale; inter-bank markets provide only fair-weather liquidity; and floating rates, swaps, and all the other technical devices can shift risk – from one borrower to another, or from bank to borrower – but cannot abolish it. So now we have a world in which everything a bank has traditionally done looks too risky. All that is left is to cut off credit from anyone who actually needs it (unless they are big enough to command keener rates than the banks themselves), and to look for salvation in current account and credit card charges, sales commissions on stocks and on life insurance. Small wonder that the Fed now reports that cuts in interest rates have done nothing at all to relieve the "unprecedented" credit crunch. (That is a matter of how far back you look for precedents.)

What we are observing is the long financial cycle, which lasts about the working lifetime of a banker. For the immediate future, we shall have to watch helplessly while the economy goes on underperforming the forecasts of those who rely on short-cycle economic models. Membership of the ERM will make matters a lot worse in the short term, but probably better in the long term. But we could try to learn the lessons. They echo those of the 1929-32 disaster, with modifications. First, interest rates alone cannot stabilise asset bubbles and their deflation; there is no workable rate high enough to check a runaway bull market, or revive one which has crashed. We need more direct methods to head off the habitual follies of lenders. The main trouble 60 years ago was stock market speculation; regulations to limit margin trading were the answer and they have never been rescinded.

The big losses now are in land and property, commodities and various risk-shifting devices and the answers will not be so simple; controls might involve differential reserve requirements on US lines (which would be a key role of member central banks of a federalised Eurobank), checks on mortgage lending on European lines, some tighter rules about corporate gearing levels – you can draw up your own list.

Whatever you put in it, you will be denounced by the diehards who still think, even as they collect their redundancy pay, that financial deregulation was a major triumph of the 1980s. The good news is that there is plenty of time to go into these questions as the full truth about recent follies emerges. For the foreseeable future, the English-speaking financial world will be a centre of quite stifling prudence.



## WORLDWIDE WEATHER

| | | °C | °F |
|---|---|---|---|
| Ajaccio | C | 13 | 55 |
| Algiers | C | 13 | 55 |
| Amsterdam | C | 2 | 36 |
| Athens | S | 18 | 64 |
| Bahrain | - | - | - |
| Bangkok | F | 34 | 93 |
| Barcelona | R | 9 | 48 |
| Beirut | - | - | - |
| Belfast | C | 5 | 41 |
| Belgrade | S | 1 | 34 |
| Berlin | C | 0 | 32 |
| Biarritz | C | 9 | 48 |
| Bombay | S | 25 | 77 |
| Bordeaux | R | 9 | 48 |
| Boulogne | - | - | - |
| Brussels | S | 1 | 34 |
| Budapest | S | 0 | 32 |
| Buenos Aires | F | 27 | 80 |
| Cairo | S | 20 | 68 |
| Cape Town | [illegible] | [illegible] | [illegible] |
| Caracas | - | - | - |
| Casablanca | F | 13 | 55 |
| Chicago | F | 0 | 32 |
| Cologne | S | 3 | 37 |
| Copenhagen | C | 0 | 32 |
| Corfu | F | 14 | 57 |
| Dallas | C | 12 | 54 |
| Dublin | C | 3 | 37 |
| Dubrovnik | F | 8 | 46 |
| Edinburgh | [illegible] | [illegible] | [illegible] |
| Faro | R | 8 | 46 |
| Florence | C | 8 | 46 |
| Frankfurt | S | 2 | 36 |
| Geneva | C | 3 | 37 |
| Gibraltar | F | 11 | 52 |
| Glasgow | C | 3 | 37 |
| Helsinki | C | -5 | 23 |
| Hong Kong | C | 16 | 61 |
| Innsbruck | S | 1 | 34 |
| Inverness | [illegible] | [illegible] | [illegible] |
| Islamabad | F | 17 | 63 |
| Istanbul | R | 5 | 41 |
| Jakarta | R | 31 | 88 |
| Jersey | F | 7 | 45 |
| Johannesburg | C | 18 | 64 |
| Lima | C | 24 | 75 |
| Lisbon | R | 6 | 43 |
| London | C | 4 | 39 |
| Los Angeles | S | 12 | 54 |
| Luxembourg | [illegible] | [illegible] | [illegible] |
| Madeira | F | 17 | 63 |
| Madrid | Dr | 3 | 37 |
| Majorca | F | 14 | 57 |
| Malaga | C | 12 | 54 |
| Malta | S | 14 | 57 |
| Manchester | S | 6 | 43 |
| Manila | F | 32 | 90 |
| Melbourne | S | 18 | 64 |
| Mexico City | C | 25 | 75 |
| Miami | [illegible] | [illegible] | [illegible] |
| Milan | S | 4 | 39 |
| Montreal | Sn | -6 | 21 |
| Moscow | C | -2 | 28 |
| Munich | S | 1 | 34 |
| Nairobi | S | 28 | 82 |
| Naples | C | 14 | 57 |
| Nassau | F | 22 | 71 |
| New Delhi | S | 17 | 63 |
| New York | Sn | -4 | 25 |
| [illegible] | [illegible] | [illegible] | [illegible] |
| Nicosia | F | 17 | 63 |
| Oporto | F | 9 | 48 |
| Oslo | F | -3 | 27 |
| Paris | S | 4 | 39 |
| Peking | S | -4 | [illegible] |
| Prague | F | -1 | 30 |
| Reykjavik | S | 0 | 32 |
| Rhodes | F | 17 | 63 |
| Rio de Janeiro | C | 30 | 86 |
| [illegible] | [illegible] | [illegible] | [illegible] |
| Salzburg | S | 4 | 39 |
| San Francisco | F | 11 | 52 |
| Seoul | S | 4 | 39 |
| Singapore | F | 33 | 91 |
| Stockholm | Sn | -5 | 23 |
| Strasbourg | S | 1 | 34 |
| Sydney | C | 22 | 72 |
| Taipei | C | 17 | 63 |
| Tangier | [illegible] | [illegible] | [illegible] |
| Tenerife | F | 17 | 63 |
| Tokyo | S | 8 | 46 |
| Toronto | C | -4 | 25 |
| Tunis | S | 14 | 57 |
| Valencia | F | 13 | 55 |
| Venice | S | 7 | 45 |
| Vienna | S | 1 | 34 |
| Warsaw | Sn | -2 | 28 |
| Washington | [illegible] | [illegible] | [illegible] |
| Zurich | [illegible] | [illegible] | [illegible] |

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS

Monday February 18 1991



## INSIDE

### Belgium gets ready for a Ecu1bn issue

Following the UK's Ecu2.5bn gilt issue last Wednesday, Belgium is planning to launch an Ecu1bn issue of five-year bonds. An official at the Belgian Treasury said a final decision was delayed on Friday, due to the uncertainty generated by Iraq's conditional offer to withdraw from Kuwait. A decision is likely to be taken tomorrow. Page 18

### Tighter ties for odd couple

ABB
ASEA BROWN BOVERI

They are two of the oldest, and oddest, bedfellows in the European electrical equipment industry. Now the 23-year-long connection between Scholes Group of the UK and Asea Brown Boveri, the Swiss-Swedish engineering group, enters a new phase. Today the wraps come off a significant alliance between the two companies. European Community single market reforms lie behind the decision to strengthen a relationship that began in 1968 with a licensing agreement, spawned a joint venture in 1981 and now produces two new UK joint venture companies. Andrew Baxter reports. Page 16

### Hold up for B&C bank deal

The planned sale of British & Commonwealth Merchant Bank is in the balance. Cukurova, the Turkish industrial conglomerate bidding for the subsidiary of the collapsed British and Commonwealth group, is still trying to finance the deal. It is understood to have offered around £25m ($49m) for the bank, against its original bid last year of £40m-£50m. The financing problem, however, relates not to this but to a £150m standby facility the group has to put in place before the sale is confirmed. Page 16

### Top job dispute at Hoesch

Such a disagreement is almost unheard of in large German companies. The supervisory board of Hoesch, the German steel and engineering group, has failed to reach agreement on who should succeed Mr Detlev Rohwedder (left), the former chief executive, who has decided to stay on as head of the Treuhand, the German state holding company, in Berlin. Page 16

### Market Statistics



### Companies in this section



# BET plans a shake-up of top jobs

By David Owen in London

SIR TIMOTHY BEVAN is to stand down later this year as chairman of BET and be replaced at the head of the debt-laden business services conglomerate by Mr Nicholas Wills, managing director and chief executive.

The changeover is expected to take place "about midsummer", according to a BET director. "The suggestion that Sir Timothy should go is his," the director said. It is thought that outside candidates for Mr Wills' job will be considered and that recruitment consultants have been asked to prepare a shortlist.

The succession issue is likely to be discussed both at a board sub-committee meeting this morning and at a series of deferred get-togethers with fund managers that will take place over the next few weeks.

Sir Timothy, 63, a former Barclays Bank chairman, has chaired BET for just over three years. Mr Wills, 49, has been chief executive since 1985.

News of the prospective shake-up comes with City confidence in the former British Electric Traction at a low ebb, following a series of recent developments.

Just over two weeks ago, the group's shares lost more than half their value in a few hours of trading amid rumours (later strongly denied) that it was about to engineer a big capital reconstruction. The shares recouped some of the lost ground after the company's statement that it was "not aware of any justification for such a fall". But they still closed down 35p at 100p.

The shares have since climbed back to 122p, valuing the group – which is among Britain's largest private-sector employers – at £905m ($1.77bn).

On February 1, BET issued a profits warning and paved the way for a possible final dividend cut by stating that it saw no reason to expect a reduction in total dividend.

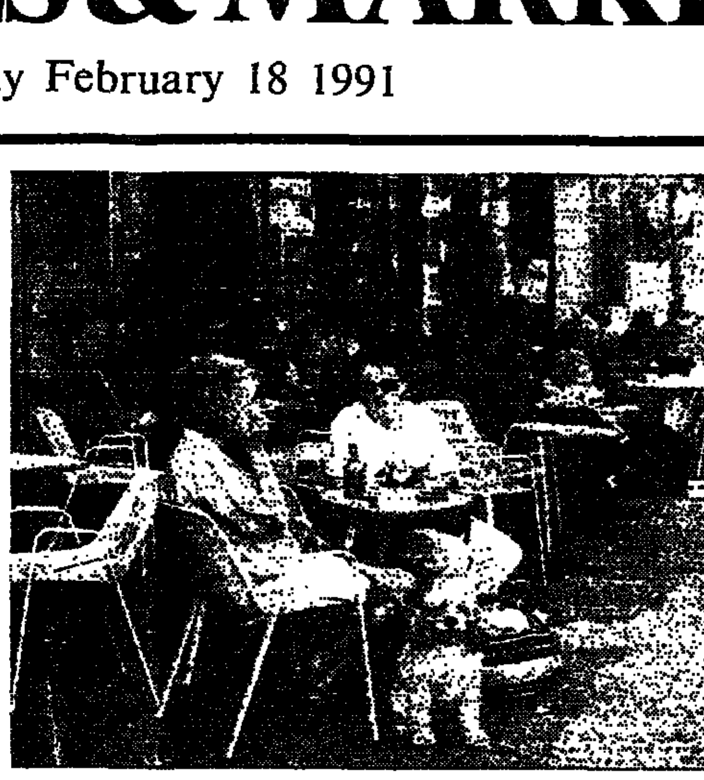
At the interim stage, the group declared a 0.25p increase to 4.25p. Analysts' profit forecasts for the year ending March 31 are in a £220m-£230m range, versus £322.3m achieved a year earlier.

A week later, the group finally succeeded in disposing of its 28 per cent stake in Thames Television. This had been on the market since March, but was sols at a price which was seen as disappointing by many.

Delays in the planned disposal of non-core businesses have been a feature of the company's recent problems.

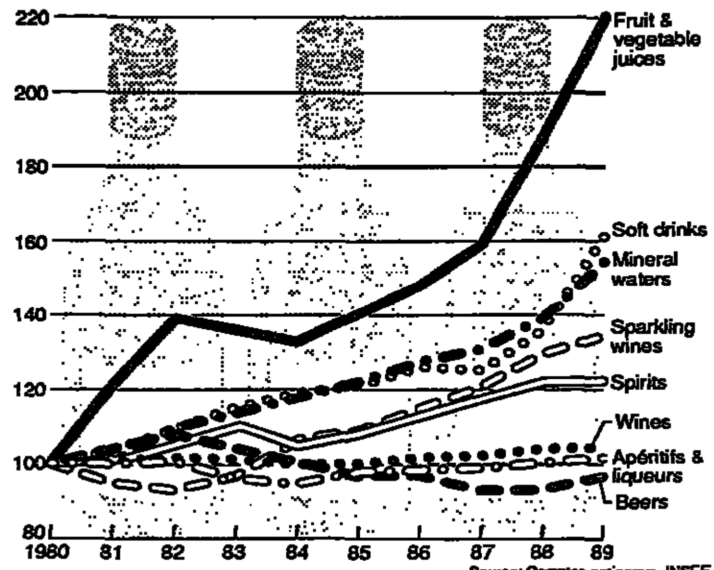
BET's year-end debt – allowing for the initial £34.5m cash injection from the Thames sale – is expected to be just under £500m, a level that would produce gearing of approximately 90 per cent.

Nicholas Wills: expected to become chairman by midsummer



Street vending machines caused cafe owners to boycott Coca-Cola

Drinks consumption in France
Volume index;1980 = 100




Source: Comptes nationaux, INSEE

# C'est la guerre for Coke and Pepsi

**William Dawkins** looks at problems in the fledgling French cola market

Shocking though it may seem, the French, of all people, are developing a taste for junk food and drink.

Foreign food companies have for years talked optimistically about the potential for cola, white sliced bread, express pizzas and hamburgers on French tables, traditionally laden with mineral water, wine, and local cooking.

The queues visible in any McDonald's in Paris bear them out. Even the waiters at Lucas Carton, one of the best restaurants in Paris and probably Europe too, these days serve Coca-Cola without turning a hair.

But going it alone in this idiosyncratic market can be tricky, a point highlighted last week when Coca-Cola, the US company which dominates the fledgling French cola market, reorganised its operations there and recalled its local chairman to headquarters in Atlanta six months earlier than scheduled.

This comes just 18 months after Coca-Cola completed a long legal battle to regain control of its French distribution from Pernod Ricard, the French drinks group which had handled it in one form or another since 1949. Meanwhile, Pepsi-Cola, Coca-Cola's much smaller rival in France, is in the final throes of an acrimonious divorce from Perrier, the soft drinks company which has done its French bottling and distribution since 1962.

The tough marketing tactics of Mr William Hoffman, the Coca-Cola executive recalled to Atlanta, had won him plaudits in the US, but went down badly in parts of France.

An experiment with selling Coca-Cola in street vending machines in Bordeaux had to be abandoned after cafe owners boycotted the drink in protest against having to compete against street sales of cans priced at roughly a third of the bottles on their own tables.

Supermarkets did not take easily to Coca-Cola's new toughness in demanding that its products should get prime shelf space, backed up with frequent on the spot visits by its executives, say stockbroking analysts. French supermarket buyers are prickly negotiators at the best of times, liable to de-list weaker brands at a moments notice. Even giant food companies like BSN treat them with kid gloves.

"Yes, he was aggressive. But we think that was well perceived by the supermarkets – and he put Coke back on track in France," says Coca-Cola.

Far from being in trouble in France, Coca-Cola has seen the volumes of all its brands rise by 52 per cent over the past three years, twice as fast as the national soft drinks market. Nor is there any direct criticism of Mr Hoffman, who is returning to the US to take charge of European trade relations, an apparent promotion.

Mr Hoffman was recruited 18 months ago to relaunch Coca-Cola in France after the FFr889m buy-back from Pernod Ricard, plus a FFr600m ($120m) investment programme to build a canning factory in Dunkirk – one of the world's largest Coca-Cola plants, with an annual capacity of 1bn cans – and a concentrates plant in southern France.

The group has also recruited 540 staff in France over the past year, making a total of around 1,500.

Mr Hoffman did just as required, presiding over a rise in French Coca-Cola consumption from 39 small bottles per head annually to 49 bottles over the past year. Volumes of all the group's brands, including Fanta, Sprite and Finley Tonic, rose by 22 per cent over the same period, though officials admit net profits will be hit by investment costs.

Coca-Cola dominates its rival Pepsi-Cola more completely in France than anywhere, perhaps a reflection of the latter's unhappy relationship with its French distributor.

The leading brand has around 80 per cent of the French cola market, with the rest split between Pepsi-Cola and retailers' own brands, reckons Mr Sylvain Massot, a food and beverage analyst in London for Morgan Stanley, the US investment bank.

Coca-Cola's efforts to boost its presence in France, one of the few countries where it owns its canning and bottling operations, also reflects the sheer attractiveness of the French market.

Consumption per head of all brands of cola is around a tenth of US levels, and less than half the level in Germany and Belgium, Europe's leading cola drinkers. Yet the French taste for cola is growing fast, representing 40 per cent of a soft drinks market that is expanding at around 25 per cent annually, estimates Mr Stu Haugen, managing director of Pepsi-Cola France.

Soft carbonated drinks still account for only 6 per cent of the average French adult's intake, against 21 per cent for bottled water and 18 per cent for wine, according to Canadean, the UK-based drinks industry consultancy.

"Coca-Cola took back its brand from Pernod Ricard not because it was dissatisfied, but because it realised France was such an attractive market that it wanted to have it all for itself. Pernod Ricard was actually doing quite well for Coke," says Mr Massot.

Pepsi-Cola found it much harder to divorce its French partner, perhaps because it was unwise enough to sign a 60-year contract with Perrier back in 1962.

Perrier's strength was that Pepsi-Cola could ride on the back of its dominance in soft drink sales to cafes and restaurants. But that has not been much use over the past decade, when the supermarkets have emerged as the big outlet, now representing at least 85 per cent of French soft drinks sales, estimates Mr Haugen. During this period, Perrier lost market share to BSN mineral water brands like Badoit and Evian, dragging down Pepsi-Cola with it.

As a result, Mr Haugen reckons Pepsi-Cola's share of the French cola market has halved over the past 10 years to between 8 per cent and 9 per cent. "We should have no problem selling Pepsi in France. We could double our volumes, even on higher prices," says Mr Haugen.

For the time being, Pepsi can only twiddle its thumbs. It wanted to form a joint venture with Perrier's soft drinks division, but the French company decided last July to sell the unit to Cadbury Schweppes, the UK drinks company. The Paris Commercial court has acknowledged Pepsi-Cola France's request to regain control, but suspended any judgment until next July.

In the meantime, Perrier bottles and markets Pepsi-Cola, while Coca-Cola's massive can plant and vigorous marketing tactics continue both to irritate and charm the French.

Economics Notebook

# Vexed question of how to police European budgets

THIS IS the high season for budgets in the industrialised world.

Britain's 1991-92 budget is due in four weeks' time. Details of a new German budget will be unveiled this week. It is the budget season in Canada, and the long months of hard bargaining between the US administration and Congress over the budget for the next fiscal year have begun.

All these budgets will involve tough political decisions. But away from the limelight, a little publicised group of senior European finance ministry and central bank officials has been discussing budgetary questions which have the potential to be even more politically explosive.

For some months, the members of the EC's monetary committee have been trying to find an answer to the vexed question of how to police national budgets in the context of Economic and Monetary Union in Europe. In a recent speech, Mr Hans Tietmeyer, the Bundesbank board member responsible for international monetary affairs, said that relating national budgetary policies to the common monetary policy envisaged under Emu "was perhaps the most difficult problem" facing the architects of union.

At its simplest, the problem is about who controls public spending: in particular, spending at the margin when a nation's budget is in deficit. While most plans for Emu envisage a common monetary policy under a European central bank, nobody is suggesting that similar control over fiscal policy should be taken out of the hands of the EC member states. This has raised the possibility of conflict. It is conceivable that national governments may balk at the harsh economic consequences of life under a fixed exchange rate system, operated by a European central bank committed to price stability.

Germany, in particular, has argued that mutually agreed rules to control fiscal policy are necessary. Otherwise individual governments might be tempted to run large budget deficits in times of economic difficulty. Such action could threaten price stability or lead to a general escalation of interest rates in the union.

This problem was recognised in the 1989 Delors Committee report on Emu. It proposed that union should involve upper limits on budget deficits in EC member states.

This notion was opposed by parliamentarians in the UK House of Commons. But since then discussion of the economic aspects of Emu has rather fallen by the wayside in the debate about Europe's future.

This may be because so much of the work on Emu has been left to monetary experts. The Delors committee was comprised mainly of the European Community's central bank governors. These same men last year agreed draft statutes for a European System of Central Banks.

But now, with the Intergovernmental Conference on Emu meeting each month, the budgetary problem appears to be moving back towards the centre of the debate. The Delors idea of limits on budget deficits appears to have been dropped because it is too difficult to put into words or numbers.

Instead, largely at the behest of Germany, the experts have been focusing their attention on other rules for imposing responsible macro-economic behaviour on national governments in Emu.

Three rules are under consideration:

- A so-called Golden Rule, stipulating that no country can have a current deficit. This would mean that all current expenditure must at least be covered by fiscal revenues. Capital spending could be covered by borrowing.
- A primary deficit rule. This would say that primary expenditure, defined as total spending less the servicing of the national debt, must be covered by fiscal revenues. In other words, no country may have a deficit which increases the national debt.
- A debt-burden rule. This would set a ceiling on the amount of national debt as a ratio of gross domestic product.

It is expected that these issues will be discussed tomorrow when the monetary committee meets again in Brussels. It is possible that EC finance ministers may have a first review of the recent work by experts on the budgetary problems of Emu when they meet in the IGC at the end of this month.

European monetary officials acknowledge centralised rules over budgets create problems for many countries. The German constitution, for example, forbids outside bodies to impose budgetary authority on the "Land" or state governments. But the biggest stumbling block to EC rules over national budgets is almost certain to be in Britain where Parliament is especially jealous of its centuries-old control over the nation's finances.

**Peter Norman and Ian Davidson**

# Arab Banking Corp to gain London base

By David Lascelles, Banking Editor

ARAB BANKING Corporation, the largest bank in the Gulf, has received Bank of England permission to incorporate a new European arm in London.

The new bank, to be known as ABC International Bank, will have authorised capital of £300m ($588m). Of this £250m will be paid up. It is expected to begin operations next month.

Mr Abdulla Saudi, the president of Bahrain-based ABC, said the move was intended to give the banks a second base in an Organisation for Economic Co-operation and Development country.

Such a move would assist the bank's growth in the western hemisphere, including Europe and the US.

Although the move to incorporate in Europe was initiated some time before the Gulf crisis, the outbreak of hostilities has added urgency to ABC's need to build a new base.

"Coming here was a 'must' for the group," said Mr Saudi.

ABC has already switched its administrative centre to London while the war lasts.

## Recovered deposits

Mr Saudi said that the bank had managed to recover a proportion of the deposits which it lost in the immediate aftermath of the Iraqi invasion of Kuwait.

The group as a whole had lost about $3bn of deposits placed by other banks, but had received new deposits of $1.8bn from business and personal customers, he added.

Overall, the group's balance sheet had fallen by about $1bn from its pre-invasion level of $22bn. The bank is currently preparing its accounts for 1990, and will publish these next month, Mr Saudi said.

The new bank will initially comprise ABC's existing London-based operations.

Those of the Paris branch will be added shortly, and other continental operations will follow.

## Own board

However, it will not include ABC's 56 per cent interest in Banco Atlantico, Spain's ninth largest bank. Eventually, the New York branch will be added.

Mr Saudi said ABC International would become the international arm for the whole ABC group. It will have its own board consisting of representatives of ABC and other members who are still being assembled.

Mr Saudi will be its executive chairman, and it will have a managing director and two general managers in charge of products and support operations.

- Kuwait banks will today begin settling interbank obligations which have been frozen since the Gulf crisis began last August.

Between $4bn and $5bn is involved, according to Kuwaiti banking sources. The move follows agreement from western central banks to relax the freeze which was imposed to prevent Iraq plundering Kuwaiti banks.

The settlement is being conducted from London by the National Bank of Kuwait, and payments are being guaranteed by the Central Bank of Kuwait.

# Logic behind a little and large deal

## Andrew Baxter reports on a new phase in the Scholes/ABB alliance

A 23-year-long connection between two of the oldest – and oddest – bedfellows in the European electrical equipment industry enters a new phase today as the wraps are lifted from a significant alliance between Scholes Group of the UK and Asea Brown Boveri, the Swiss-Swedish engineering group.

More than 100 City analysts, investors and electrical distribution executives will sit down to lunch at a City livery hall to hear how the European Community single market reforms are reshaping the hitherto heavily-protected UK electrical installation equipment market.

The reforms lie behind the two companies' decision to strengthen a relationship that began in 1968 with a licensing agreement, spawned a joint venture in 1981 and now produces two new UK joint venture companies.

The two partners could hardly be more different. Scholes sells 90 per cent of its products in the UK, and is best known for its Wylex fuse boxes and circuit breakers that are plugged into half the homes in the UK.

Asea Brown Boveri is a multi-national which leads the European market for installation equipment – just one of 60 business areas. Group spending on research and development alone is $1.4bn (£700m), more than ten times Scholes' annual turnover.

But both Mr Reg Harrington, chairman and chief executive of Scholes, and Mr Tim Langhorn, ABB's business development manager in the UK, stress that this "little and large" deal has a logic that appeals to both companies.

On paper the agreement looks simple enough. One of the new companies, ABB Wylex Sales, will have responsibility for the sales of Wylex equipment and products from the second new venture, ABB Wylex Product & Development.


Trevor Humphries

Partners in agreement - Reg Harrington (left) of Scholes and Asea Brown Boveri's Tim Langhorn

This Glenrothes-based company has developed out of the original 1981 joint venture producing high performance miniature circuit breakers, but will also offer a range of new products supplied by ABB. These include protective equipment, infra-red sensors and emergency lighting systems.

Despite their long association, it has taken Scholes and ABB two years to reach the point where they could give employees and wholesalers full details of their extended business links. The avuncular Mr Harrington admitted negotiations had been "very long, very involved," due mainly to the crucial importance of protecting the profit stream from Wylex back into Scholes.

The enforced silence on the true significance of the deal for the UK industry has been especially galling for Scholes. Over the past few months Mr Harrington has been the bearer only of bad news as the UK recession and problems with an Iraqi contract led to a 31 per cent fall to £6.22m in pre-tax profits for the year ended June 30.

Profits are expected to fall further, to about £5m, this year. So today's launch is a welcome tonic for the hard-pressed Mr Harrington.

The deal is intended to give Scholes protection from the shocks of the single market. The dramatic changes which Mr Harrington predicts for the UK market stem from its very different structure, with about 50 installation equipment producers against three or four for each of the main continental European markets.

"These are big, powerful manufacturers with heavy R&D spending and enormous market shares – it's literally carved up," says Mr Harrington. "We in the UK stand out like a sore thumb."

With aggressive foreign companies such as Merlin-Gerin of France buying their way into the UK market, Mr Harrington believes the key to survival for Scholes is to hitch its coat to ABB's technological wagon. Virtually all the miniature circuit breaker technology used by UK suppliers is imported from Europe and, says Mr Harrington, "if you haven't got it, you're nowhere."

Another crucial element of the deal for Scholes is the broader access it gains to ABB's manufacturing technology. Two years ago, Mr Harrington visited ABB's fully-automated Stotz-Kontakt plant in Heidelberg, which produces one complete, packaged MCB every two seconds. "The technology is mind-boggling," says Mr Harrington. "I stood there and watched, and rapidly came to the conclusion that if you can't beat them you just have to join them."

ABB has a 4.7 per cent stake in Scholes, and could easily have swallowed the entire company with barely a pause for breath. But Scholes is more valuable to ABB as a separate company with its own identity and laboriously-developed distribution network.

Despite its muscle, ABB has hitherto not had the same success in the UK with installation equipment as in mainland Europe, and Mr Langhorn hopes the access to the 1,500 Wylex outlets will redress the balance. That is why the support of the UK distribution trade, which also faces incursions from acquisitive European rivals, is needed for the new joint ventures to prosper.

The deal does not exclusively concern the UK market. Just as ABB gets a foot in the UK standards camp, Scholes will be able to offer ABB a number of its products for sale in Europe.

Financially, the deal is a drop in the ocean for ABB at group level, but still significant for its installation material business, which had worldwide sales of about £600m last year.

Mr Harrington, meanwhile, foresees annual turnover of $5m from the new ABB products within the next couple of years, giving a much-needed fillip to Scholes group profits from the end of this year.

# Cukurova deal with B&C bank held up

By John Murray Brown in Ankara and Richard Waters in London

THE PLANNED sale of British & Commonwealth Merchant Bank is in the balance as Cukurova, the Turkish industrial conglomerate bidding for the subsidiary of the collapsed British and Commonwealth group, is still trying to finance the deal.

It is understood to have offered around £25m for the bank, against its original bid last year of £40m-£50m. The financing problem, however, relates not to this but to a £150m standby facility the group has to put in place before the sale is confirmed.

The money is needed to provide liquidity for the bank, which could face a rush on deposits if it begins trading again. It has been in administration since early last summer, leading to the freezing of £300m of deposits.

Mr Melih Araz, the president of Interbank, one of four Cukurova banking subsidiaries, said over the weekend that the financing had "witnessed some difficulty", with a final decision from the banks expected early this week.

Morgan Grenfell, the UK merchant bank, has been attempting to put together the finance for several weeks, but has yet to cross the first hurdle. This involves a plan to persuade UK clearing banks to provide the cornerstone for the finance, before attempting to sell it more widely to foreign banks in London. Without the UK banks' involvement, there is thought to be no chance of success.

Two UK clearing banks who were both exposed to the collapsed parent company are thought to remain reluctant to join the syndication.

Mr Araz conceded that without the standby Cukurova could not complete the deal. "If the clearing banks don't come in, why should the continental banks?" Bankers believe BCMB will either be back on the market or put into liquidation.

Mr Stephenson Adamson, one of the BCMB administrators, said of the Cukurova deal: "While it is still on the horizon, it's in the interest of creditors that we pursue it. There must come a time when enough's enough, but I don't think we're there quite yet."

He added that the administrators had been talking with other potential bidders for the bank, who could step forward, but added: "Obviously it's a declining market for selling banks."

# Leadership dispute causes embarrassment at Hoesch

By David Goodhart in Bonn

THE SUPERVISORY board of Hoesch, the German steel and engineering group, has failed to reach agreement on who should succeed Mr Detlev Rohwedder, the former chief executive of Hoesch, who has decided to stay on as head of the Treuhand, the German state holding company, in Berlin.

Such a disagreement is almost unheard of in large German companies and has caused the company severe embarrassment.

A spokesman said Hoesch would now seek a new chief executive from outside the company.

Mr Guenter Flohr, Hoesch sales director, had been the favoured candidate of Mr Herbert Zapp, the supervisory board chairman, and the representatives of the workforce who hold 10 out of the 21 seats on the board.

Detlev Rohwedder: former chief executive of Hoesch

However, he was opposed by many shareholder representatives who preferred Mr Hero Brahms, the finance director of Hoesch.

In the past few years Hoesch has succeeded in diversifying from its steel base, although about half of profits and one quarter of sales are still steel dependent, and has become a favourite with foreign shareholders who are said to own more than half the shares.

The leadership dispute may dent the company's image at a time when analysts are also raising questions about the next stage of the diversification strategy.

● Hoesch has confirmed that it has sold two forges to Ascometal, a subsidiary of the French steel group Usinor-Sacilor.

The forges, at Eckessy and Homburg, together employed about 800 people with joint sales of DM130m ($89m) annually but they are likely to face rationalisation.

# Amax to acquire Cannelton

By Kenneth Gooding, Mining Correspondent

AMAX, the natural resources group which already owns the third-largest coal business in the US, is to pay $100m for Cannelton Holding Company which has mines in West Virginia and last year sold about 6m short tons of coal.

Cannelton is owned by Algoma Steel, a subsidiary of Dofasco, a group based in Hamilton, Ontario. As part of the deal, Amax will sign a nine-year agreement to supply metallurgical coal to Algoma from Cannelton properties.

Amax sold 46 tons of coal last year. Cannelton has 138m tons of economically recoverable reserves, 80 per cent of which are low-sulphur types.

■ PLACER PACIFIC, the Australian gold mining subsidiary of Placer Dome of Canada, has reported record net earnings of A$63.86m (US$50.2m) or 10.3 cents a share on revenue of A$484.19m for 1990. This was a 163 per cent jump from 1989 earnings of A$24.27m or 3.9 cents a share, on revenues of A$235.68m.

The company said the improvement was due to the start of operations at the Granny Smith and Porgera mines during 1990, a full year of operations at Misima and improved gold output from the Kidston mine.

However, Placer said that a further write-down of its interest in the Big Bell mine was necessary. After writing down A$15m net in July a further sum of A$19m net was required.

Gold production attributable to Placer last year was 687,936 troy ounces, up from 322,044 ounces in 1989. Average cash operating costs last year were A$227 an ounce and the average price received A$553. Forward sales of gold for the next two years included 810,200 ounces at US$430 an ounce and 82,000 ounces at A$641 an ounce.

# Allied bid left to discretion of holders

By Philip Gawith in Johannesburg

THE DIRECTORS of the Allied group, the South African building society at the centre of competing bids which will determine the formation of the country's largest banking group, have chosen not to recommend either bid, leaving it instead to their shareholders' discretion.

Mr Norman Alborough, chairman of Allied, said on Saturday the board had found it difficult to make a single recommendation because of the two very different types of shareholders with different needs.

Ninety-four per cent of Allied's 47,000 shareholders hold only 25 per cent of the total issued shares. The remaining 6 per cent of shareholders hold the remaining 75 per cent of shares.

In terms of negotiations to form the new Amalgamated Banks of South Africa (Absa), Allied would merge with UBS, Volkskas and Sage Financial Services. The other offer comes from First National Bank (FNB), currently the country's second largest bank. Either outcome is likely to lead to the formation of the country's largest banking group.

Allied said that shareholders who wanted cash should prefer the FNB offer which was 100 per cent cash and at a superior price to Absa's 50 per cent cash offer. They noted that shareholders should consider selling into the market where Allied's price had risen as high as 300 cents during the past week.

Allied's directors said the terms of the share consideration offered by Absa and FNB were "not materially different".

They said they were "not in a position to comment on the future growth prospects of the two groups relative to each other."

This was partly because they had little idea of what plans FNB had for the group compared with Absa where they had been involved in four months of negotiations.

In a week of furious trading, 33m of Allied's 295m issued shares changed hands.

Mr Kevin de Villiers, the controversial managing director of Allied, made about R3m ($1.19m) by selling 2.3m of his Allied shares, bought at an average of about R1.30.

# Ferrum and Wood venture

Ferrum Holdings, the USM-quoted engineering group, and Wood Group Engineering, the largest oil services company in the UK, have formed Mech-Tool Wood Group to carry out safety improvements in the North Sea, writes Deborah Hargreaves.

The new company will focus on the recommendations made in the Cullen report following the Piper Alpha disaster. It will specialise in building safe havens – where employees can shelter in an explosion – on all offshore installations and putting in place measures to contain explosions.

Ferrum expects a pre-tax profit of £4m this year, and may soon go for a full listing.

# Chancery statement imminent

By John Authers

CHANCERY, the financial services group which specialises in sponsoring tax shelter investment under the Business Expansion Scheme, is expected to make an announcement today following the suspension of share dealings in the company on Friday.

The Stock Exchange stopped trade in the shares after speculation that Chancery was about to make a rights issue had forced down the price by 6p to 36p.

Analysts already thought an appeal for fresh liquidity was likely in the light of interim results, announced in December, which showed a pre-tax loss of £1.3m. That included provisions of £3.5m against property loans impaired by falling property values. The company includes a merchant banking arm and is subject to stringent controls on debt.

Advisers and intermediaries received numerous calls on Friday night from investors worried about the safety of their money, and wanting to know if they should cancel cheques.

However, Mr Anthony Yadgaroff, of Best BES Advice, part of the Allenbridge Group, made it clear that investors' funds were not endangered in any way.

He said: "There will be no problem at all with schemes sponsored by Chancery, because cheques are made payable to the (fund raising) company itself, and not to the sponsor."

Chancery has raised more than £100m for BES companies, in individual investments of less than £30,000, since 1984.

These companies stand alone once they have been launched. Chancery has four BES offers open for investors at present, and none of them need be endangered.

The company's plan to diversify into enterprise zone property trusts, another form of tax shelter, also remains intact, according to a spokesman for the company.

## CROSS BORDER M&A DEALS

| BIDDER/INVESTOR | TARGET | SECTOR | VALUE | COMMENT |
|---|---|---|---|---|
| Int'l consortium | Home Insurance (US) | Insurance | £470m | Trygg-Hansa-led bid completed |
| Nokia (Finland) | Technophone (UK) | Cellular telephone manufacture | £34m | Merged company the world No 2 |
| Lac Minerals (Canada) | Bond International Gold (US) | Gold mining | £43m | Lac buying outstanding stake |
| Asia Pacific Breweries (Holland/Singapore)/ Brierley Investments (New Zealand) | Joint venture | Brewing | £76m | Stategic move by APB |
| Compagnie de Suez (France) | Societe Generale de Belgique (Belgium) | Holding Company | £207m | Suez completes La G buy |
| Public Bank (Malaysia) | Bancorp (New Zealand) | Banking | £1.3m | Public furthers overseas expansion |
| Pallas Group (Luxembourg) | VCH (Germany) | Publishing | n/a | Pallas takes 29 per cent stake |
| Nordica Sportsystem (Itay) | Kastle (Austria) | Ski manufacture | n/a | Further ski equipment rationalisation |
| Otis Elevator (US)/ Soviet partners | Len Otis Lift (Soviet) | Lift manufacture | n/a | Otis strengthening US position |
| St Gobain (France) | Oberland Glas (Germany) | Glass packaging | n/a | Germans OK stake over 50 per cent |

Source. FT Mergers & Acquisitions International

Fundamentals continued to reassert themselves in a rather subdued week for cross-border mergers and acquisitions, writes Brian Bollen. The week's deals again included a mix of sales forced on financially-troubled companies and purchases made for strategic reasons.

Swedish insurance company Trygg-Hansa completed its first big step into the international direct insurance market. Five months after its preliminary bid, the international consortium led by Trygg-Hansa acquired Home Insurance of the US, sold by Ambase Corporation because of mounting financial problems.

Benefiting from another debt-driven sale, French investment group Compagnie Financiere de Suez picked up the remaining shares held in Societe Generale de Belgique by Cerus, the holding company of Mr Carlo De Benedetti. Cerus officials acknowledged the sale took place at a bargain price to reduce debt, and said the company would now revert to its former policy of holding large stakes in industrial companies where it can exert operational control.

The dismemberment of the Bond empire continues with the offer by Canadian gold producer Lac Minerals for the 35 per cent it does not already hold in Colorado-based Bond International Gold.

Foreign involvement in the UK mobile telecommunications market increased further, with the £34m purchase of privately-owned Technophone by Finland's Nokia. This marriage between Europe's two biggest makers of cellular telephones follows a series of UK acquisitions by Hutchison Telecommunications of Hong Kong.

The purchase of Austrian ski maker Kastle by Italian sports group Nordica Sportsystem marks a further rationalisation of the troubled ski equipment sector.

By agreeing to take 29 per cent of German scientific publisher VCH, Luxembourg-based investment group Pallas says it has provided it with "the means needed to acquire and integrate compatible companies."

US-owned Otis Elevator, the world's biggest maker of lifts, is taking 55 per cent of Len Otis Lift, a Soviet joint venture, as part of its strategy to gain a manufacturing foothold in eastern Europe.

## NEWS DIGEST

### Cranbrook losses up to £696,000

THE DOWNTURN in the UK economy, high interest rates, the de-stocking policy of many manufacturing companies and exceptional charges continued to affect Cranbrook Electronic Holdings, and for the year ended September 30 1990 its loss increased from £489,000 to £696,000.

However, for the first quarter of the current year the group had halted the losses, reported Mr Tony Diamond, chairman of the USM quoted distributor of high technology electronic components and subsystems. And he hoped the year's performance would show a "marked improvement" over 1989-90.

Turnover fell 6 per cent to £10.5m, while expenses were cut by 11 per cent and led to operating loss being reduced 36 per cent to £152,000 (£236,000). But interest charges rose to £336,000 (£191,000) and exceptional costs to £208,000 (£62,000).

Losses per share came out at 6.61p (4.28p). There is no dividend, against 0.5p interim only, last time.

### Arthur Lee warns

Mr Peter Lee, chairman of Arthur Lee & Sons, warned shareholders at the annual meeting that the results for the opening half year would fall well short of last time's depressed £2.72m.

He added, however, that the second half would gain from economies already effected and he looked for benefits from additional capital spending yet to be commissioned.

### Fairway (London)

Fairway (London), supplier of business and computer stationery, lifted its pre-tax profit by 39 per cent, from £756,000 to £1.05m, in 1990.

That was arrived at after deducting a £100,000 loss at the Wokingham office, which was closed in December.

Turnover rose 43 per cent to £8.36m (£5.85m) while gross profit advanced 56 per cent to £3.15m (£2.02m). Earnings per share worked through at 4.6p (3.81p) and the final dividend is 2p for a total of 3p (2.75p).

### Elan Corporation

Third quarter profits of Elan Corporation, the Irish pharmaceutical manufacturing company, rose from I£736,000 to I£1.5m (£1.37m) pre-tax.

That lifted the total for the nine months to end-December to I£4.28m compared with I£2.09m. Earnings for the nine months came out at 27p (13p).

### Trust of Property

Net assets per share of Trust of Property Shares, an investment trust, fell from an adjusted 96.45p to 79.75p over the 12 months to December 31.

The book value of its principle equity holding in Tops Estates fell by 14.5 per cent but holdings in companies based in the Midlands, north of England and Scotland showed advances.

Net revenue for the year increased to £102,328 (£93,855) for earnings per share of 1.55p (1.42p). Directors are proposing a single final payment of 1.364p (1.212p).

### N American Gas

North American Gas Investment Trust had a net asset value of 65.02p per share at January 31 compared with 90.7p a year earlier.

Net revenue for the half year to January fell to £353,000 (£521,000) for earnings per share of 1p (1.48p).

The interim dividend is held at 1.125p but Mr Jack Birks, the chairman, warned that in the absence of a considerable improvement in natural gas prices and in the value of the US dollar it was unlikely that the full year dividend of 3.75p would be maintained.

Tax took £189,000 (£273,000).

### Anglo & Overseas

Net asset value at Anglo & Overseas Trust was 267.7p at December 31, against 370.4p a year earlier, and the final dividend is a recommended 4.4p (4p) to make 6.15p (5.6p) for the year.

Post-tax profits for 1990 amounted to £7.66m (£8.38m). Earnings per share slipped to 6.64p (7.27p).

# Vard profits tumble on losses and write-offs

By Karen Fossli in Oslo

VARD, the Norwegian shipping and finance group, announced that pre-tax profits, before extraordinary items, in 1990 had plunged by more than half to NKr205m ($35.9m) from NKr478m, because of losses and write-offs in shipping engagements.

Vard explained that in the fourth quarter Vard A/S, the holding company, had to write-off NKr30m on investments in shareholdings. In 1989 Vard A/S experienced a NKr20m gain on shares and is expected in 1991 to experience a similar result. Vard A/S saw last year's losses more than double to NKr127m from NKr46m in 1989.

Kloster Cruise, the passenger cruise operation, suffered a NKr75m decline in profits to NKr223m.

Vard said that although Kloster Cruise broke even in the fourth quarter, Royal Viking Sun, a cruise line, had incurred losses due to the Gulf conflict. In addition, a fall in the value of the US dollar against the krone decreased profits by NKr19m.

Larvik Line, a ferry operation, boosted profits by NKr7m to NKr65m, despite lower passenger volumes. The increase was boosted by onboard passenger spending. Scandi Line, another ferry operation acquired in June, achieved profits of NKr25m, in line with expectations. Vard said that an increase in passenger capacity is planned for 1991.

Finanshuset, a finance operation, fell into a NKr15m loss from a NKr168m profit a year earlier. Vard said that although a NKr109m operating profit was experienced, extraordinary write-offs of NKr120m were made necessary by a fall in the stock market and in ship values.

# Asatsu rises as strong economy improves sales

By Robert Thomson in Tokyo

ASATSU, the Japanese advertising agency, has reported a 44 per cent increase to Y6.78bn ($52.3m) in pre-tax profit for the year to the end of December.

However, it suffered a Y3.54bn appraisal loss on securities holdings that pushed after-tax profit down 21 per cent to Y1.7bn.

The company said that sales rose 17.8 per cent to Y132.4bn, as a strong Japanese economy stimulated advertising growth, but the stock market plunge last year hurt the company, with the value of shareholdings falling sharply.

Japanese economic growth is expected to slow this year, and Asatsu predicts a modest increase in pre-tax profit to Y7bn on sales of Y148bn, though after-tax profit is forecast to more than double to Y3.5bn.

# Nedlloyd to discuss strategy

By Ronald van de Krol in Amsterdam

NEDLLOYD, the transport and energy group based in Rotterdam, will convene an extraordinary meeting at the request of several shareholders, including the Norwegian investor Mr Torstein Hagen, to discuss the group's strategy.

Mr Hagen, who controls 23 per cent of Nedlloyd's share capital and claims support from a further 22 per cent of shareholders, has been urging Nedlloyd to shed non-core activities in order to concentrate on liner shipping and road transport.

Nedlloyd met Mr Hagen in late January to discuss his plans for restructuring the group, which fell into the red in 1990.

Few details of the Hagen plan have been divulged.

Among the other subjects likely to be raised at the meeting are the reasons behind the recent departures of two senior Nedlloyd officials, Mr Rob Lenterman, the company's deputy chairman, and Mr Theo Oostinjen, director of the group's shipping lines.

# Meiji Seika takes stake in drug group

By Clive Cookson

MEIJI Seika, the Japanese pharmaceutical and confectionery group, has acquired a 60 per cent stake in Tedec Zambeletti of Spain for an undisclosed amount.

The Spanish drug company was formed only last June when Tedec bought Laboratorios Zambeletti from SmithKline Beecham of the UK for Pta2bn ($21.8m).

Although Japanese drug companies are now expanding actively into Europe, Meiji Seika is believed to be the first to use Spain as its base.

Meiji Seika is best known as Japan's largest confectionery company, however, pharmaceuticals, especially antibiotics, comprise almost half of its Y220bn ($1.69bn) annual revenues.

It has plans to manufacture a range of antibiotics at the Tedec Zambeletti facilities in Spain.

# St Lawrence diversifies

By Robert Gibbens in Montreal

ST LAWRENCE Cement, eastern Canada's largest cement producer and owned by the Swiss Holderbank group, plans to move directly into waste management.

St Lawrence will buy 12.4 per cent of Lincoln Waste Management, of Hamilton, for about C$25m (US$21.7m) and has an option to raise the holding to 22 per cent.

Lincoln supplies recycled material for St Lawrence's cement plant near Toronto. St Lawrence is a leader in the use of waste materials to fire cement kilns.

# INTERNATIONAL CAPITAL MARKETS

SYNDICATED LENDING

## Saudi loan margin provides good return

SHOULD Saudi Arabia be paying the same for its money as the European companies now tapping international banks for funds?

A \$3.5bn three-year financing for the Saudi government – completed by JP Morgan in New York before many banks' syndicated loan departments had even heard about the deal – carried a margin of ½ percentage point over interbank rates.

The same bank, together with Deutsche Bank, is arranging a DM500m five-year revolving credit for Continental, the German tyre group in a battle to prevent a takeover from Italian rival Pirelli. If fully used, all-in returns for the Continental deal just about match the Saudi loan, for which there are no front-end fees.

Meanwhile, S-E Banken is inviting international banks into a \$1bn three-year financing for the Stora Group – extendable to five years at the borrowers' option. The margin is 50 basis points (½ percentage point) for three years and 55 basis points for the remaining two.

Both corporate deals, in particular that for Continental, are viewed by bankers as tight: neither is regarded as in the top rank of European corporate credits. Given the 100 per cent risk weighting applied to corporate borrowers under the Basle rules, banks will have to set aside capital equivalent to 8 per cent of the amount lent, and 4 per cent on amounts committed but not lent.

By contrast, the government of Saudi Arabia is the only one outside the Organisation for Economic Co-operation and Development treated as an OECD government for bank capital purposes. As a result, banks are not required to set aside any capital for their loans to it. The margin on the Saudi loan, which includes an acknowledged war premium and a financial incentive to encourage banks to come up with a large sum at a difficult time in the banking market, thus provides banks with a more attractive return than the European companies.

The Continental deal is said not to be linked to the Pirelli battle, but will help it to digest recent acquisitions and capital expenditures. The return is made up of a facility fee – paid whether or not the loan is drawn – of $\frac{3}{16}$ per cent and an interest margin of the same level. Returns are increased by front-end fees, which range down from ⅛ per cent for a DM35m commitment, and utilisation fees. If more than one third drawn, an extra 5 basis points is payable; if more than two-thirds drawn an extra 10 basis points.

The financing is expected to be well used, but returns are skimpy by today's standards, particularly on the undrawn amounts. However, the scarcity of German corporate credits in the banking market will probably see it through.

Elsewhere, mandates are said to have been awarded for fund raisings by the two soon-to-be privatised Scottish electricity companies, Scottish Power and Scottish Hydro. Both mandates appear to have gone to company advisers: Samuel Montagu in the case of Scottish Power and Royal Bank of Scotland/Charterhouse for Scottish Hydro. Final sums to be raised from banks depend on government decisions and have not been settled: Scottish Power will be the larger – perhaps £250m to £350m.

The £1.3bn financing for Inntrepreneur, the holding company in the pubs-for-breweries swap agreed by Grand Metropolitan and Elders IXL, has yet to be fully underwritten amid a mixed market reaction. The interest margin on the transaction provides an interesting comparison with last year when the deal was first mooted at £1.8bn. The margin now is 1⅛ per cent; then it was ⅞.

**Stephen Fidler**

### EUROMARKET TURNOVER (\$m)

Primary Market

| | Straights | Conv | FRN | Other |
|---|---|---|---|---|
| US\$ | 3,600.6 | 49.3 | 82.0 | 14,193.0 |
| Prev | 630.0 | 0.0 | 75.0 | 12,434.3 |
| Other | 4,086.0 | 0.0 | 497.0 | 10,879.6 |
| Prev | 1,327.2 | 0.0 | 123.1 | 8,436.8 |

Secondary Market

| | Straights | Conv | FRN | Other |
|---|---|---|---|---|
| US\$ | 27,905.5 | 879.3 | 6,328.1 | 10,472.4 |
| Prev | 27,155.1 | 665.7 | 8,265.7 | 7,721.1 |
| Other | 33,324.5 | 839.6 | 6,248.7 | 73,511.7 |
| Prev | 32,192.1 | 1,115.9 | 5,985.7 | 63,079.1 |

| | Cedel | Euroclear | Total |
|---|---|---|---|
| US\$ | 19,234.5 | 44,275.7 | 63,510.2 |
| Prev | 23,096.7 | 33,850.2 | 56,946.9 |
| Other | 50,454.6 | 78,932.5 | 129,387.1 |
| Prev | 47,013.6 | 65,246.3 | 112,259.9 |

Week to February 14, 1991

Source: AIBD

INTERNATIONAL BONDS

## Deepening recession may pave way for a bull market

THE WORSE the recession becomes, the more voices can be heard declaring a bull market for bonds. Rising unemployment, falling output and stagnating growth are regarded as "bond-positive" economic trends by market analysts.

The bull market argument is predicated on the simple fact that, as every economics undergraduate knows, bond prices will rise as interest rates come down.

There are hopes the last rise in German interest rates on January 31 will mark the high-point of global interest rates. In the face of deepening recession, rates are already falling in the US and UK and Japanese rates may soon follow. Even the rigorous Bundesbank may be in a position to ease monetary conditions in the second half of the year.

A settlement in the Gulf, it is argued, will remove a further element of uncertainty from the markets, causing investors to focus on these economic fundamentals.

Proponents of the bull market theory also point out that institutional investors built up substantial holdings of cash during 1990. But cash holdings will be reduced as interest rates come down and the bond markets should benefit.

New issue activity in the international bond market has shown definite signs of recovery this month. Yet it remains unclear whether the upturn will be lasting, or a temporary respite in a steady decline. Both the demand and the supply side of the international market equation remain open to disruptions.

As a primary forum for cross-border investment flows, the international bond market is potentially vulnerable to exchange rate instability. Prolonged exchange rate volatility could arise from a period of unco-ordinated changes in interest rates as national governments grapple with different economic problems. Such instability could encourage the continued repatriation of capital into domestic markets. In this case, the credibility of monetary co-operation between the industrialised countries could be central to maintaining international capital market flows.

However, optimists argue that exchange rate volatility could be positive for the international market as investors look to out-perform their domestic markets by making currency gains.

The recent flood of new bond issues in the Eurodollar sector demonstrates that exchange rate movements can actually stimulate demand. Investors have seen the weakness of the dollar as providing a clear buying opportunity.

On the supply side, the list of issuers with access to the international market is shrinking as corporate borrowers are priced out of the market.

Investors are increasingly fearful of declining credit quality in the corporate sector and the market is dominated by sovereign and supranational borrowers.

To some extent the prevalence of supranational borrowers is misleading. The supranationals are often intermediating credit for companies which cannot issue bonds.

Some of the newly privatised UK water companies, for example, have already borrowed from the European Investment Bank this year. The EIB has a funding requirement of Ecu12bn this year, about Ecu1bn higher than in 1990. Syndicate managers report that other supranational borrowers also have increased funding requirements this year. Yet increased funding from sovereign and supranational borrowers may not make up for the loss of business from corporate borrowers, who are turning to domestic markets for their funding.

For example, there has been a flurry of deals in the US domestic bond market from industrial companies which were once regular visitors to the international market. IBM, Exxon and Shell all raised funds at rates which could not be achieved in the international market. High-quality corporate borrowers with major funding needs can still tap pockets of demand in the international market to achieve acceptable rates.

But the arbitrage opportunities on which such corporate issues depend are increasingly rare. Indeed, substantial benchmark issues serve only to set benchmark yields at unattainable levels and can eliminate arbitrage opportunities for corporate borrowers.

Despite these factors, syndicate managers remain optimistic about the year ahead. Most predict a big increase in new issue activity. But following a rather dour 12 months, no one is celebrating yet.

**Simon London**

### NEW INTERNATIONAL BOND ISSUES

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Book runner | Offer yield % |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| International Fin.Corp◆ | 300 | 1998 | 7 | $8\frac{1}{4}$ | 99.84 | Deutsche Bk Cap.Mkts. | 8.281 |
| Familymart Co.♦ | 200 | 1995 | 4 | $4\frac{1}{2}$ | 100 | Nomura Int. | 4.500 |
| American Brands Inc.(e)§◆ | 150 | 2001 | 10 | $7\frac{5}{8}$ | 100 | Morgan Stanley Int. | 7.625 |
| Autobacs Seven Co.♦ | 100 | 1995 | 4 | $4\frac{1}{2}$ | 100 | Nomura Int. | 4.500 |
| Sanyo Electric Rlwy.♦ | 80 | 1995 | 4 | $4\frac{7}{8}$ | 100 | Yamaichi Int. | 4.875 |
| MTKB Fin.Cayman Ltd(l)◆ | 800 | 2001 | 10 | $8\frac{5}{8}$ | 101.70 | Mitsui Taiyo Kobe Int. | 8.367 |
| Exp.Imp.Bk Japan◆ | 250 | 2001 | 10 | $8\frac{3}{8}$ | 99.52 | Nomura Int. | 8.448 |
| Keihan Elec.Rlwy(k)♦◆ | 150 | 1995 | 4 | $4\frac{1}{2}$ | 100 | Nikko Secs. | 4.500 |
| Tokyu Store Chain(j)♦◆ | 100 | 1995 | 4 | $4\frac{1}{2}$ | 100 | Nomura Int. | 4.500 |
| Mitsubishi Oil (UK)◆ | 50 | 1995 | $4\frac{1}{2}$ | $8\frac{1}{8}$ | $101\frac{7}{8}$ | Mitsubishi Finance | 7.597 |
| **STERLING** | | | | | | | |
| Deutsche Bk Fin.NV(f)◆ | 250 | 2001 | 10 | zero | (c) | Deutsche Bk Cap.Mkts. | 10.604 |
| SBC Fin.(Cayman Is.)(g)◆ | 200 | 2001 | 10 | zero | (d) | SBC | 10.589 |
| EIB(i)◆ | $86\frac{1}{2}$ | 1997 | 6 | 10 | (f) | NatWest Cap.Mkts. | 10.883 |
| BAA plc(s)◆ | 150 | 2016 | 15 | $11\frac{3}{4}$ | 102.953 | BZW | 11.657 |
| Credit Local de France◆ | 100 | 2001 | 10 | zero | 36.24 | BZW | 10.683 |
| Leeds Perm.Bldg.Soc.(t)◆ | 100 | 1996 | 5 | $11\frac{1}{2}$ | (t) | UBS Phillips & Drew | 11.665 |
| **CANADIAN DOLLARS** | | | | | | | |
| Hydro Quebec◆ | 300 | 2001 | 10 | $10\frac{5}{8}$ | 101.04 | Merrill Lynch Int. | 10.453 |
| KFW Int.Finance◆ | 200 | 2001 | 10 | 10 | 99.43 | IBJ Int. | 10.093 |
| GECC◆ | 125 | 1997 | 6 | $10\frac{1}{8}$ | 101.35 | Wood Gundy Inc. | 9.817 |
| **AUSTRALIAN DOLLARS** | | | | | | | |
| Cr.Local de France◆ | 200 | 1998 | 7 | zero | 46 | Hambros Bank | 11.732 |
| NatWest Australia◆ | 100 | 1994 | 3 | $12\frac{1}{4}$ | $101\frac{7}{8}$ | NatWest Cap.Mkts. | 11.476 |
| **ECUs** | | | | | | | |
| Central International(a)§ | 70 | 1996 | 5 | $10\frac{1}{4}$ | 100 | Merrill Lynch Int. | 10.513 |
| SNCF◆ | 300 | 2001 | 10 | $9\frac{3}{8}$ | 101.525 | Paribas Capital Mkts. | 9.136 |
| Swedish Export Credit◆ | 250 | 1994 | 3 | $9\frac{1}{4}$ | $101\frac{7}{16}$ | CSFB | 8.783 |
| Finnish Export Credit◆ | 150 | 1994 | 3 | $9\frac{1}{4}$ | $101\frac{7}{16}$ | Nomura Int. | 8.783 |
| IBM Int.Fin.NV◆ | 150 | 1994 | 3 | $9\frac{1}{4}$ | 101.30 | Paribas Capital Mkts. | 8.739 |
| United Kingdom(u)◆ | 2.5bn | 2001 | 10 | $9\frac{1}{8}$ | 100 | Morgan Stanley Int. | 9.125 |
| **FRENCH FRANCS** | | | | | | | |
| Credit National◆ | 1.5bn | 1996 | 5 | $9\frac{5}{8}$ | 101.325 | Paribas Capital Mkts. | 9.282 |
| C.Nat.de Cr.Agricole(m) | 1bn | 1996 | 5 | $9\frac{3}{4}$ | (m) | Credit Agricole | 9.829 |
| **D-MARKS** | | | | | | | |
| Hoxan Corp(d)♦◆ | 60 | 1995 | 4 | $5\frac{1}{8}$ | 100 | Yamaichi Int.GmbH | 5.125 |
| World Bank(n)◆ | 200 | 2001 | 10 | $8\frac{1}{2}$ | 100 | Commerzbank | 8.500 |
| Autobacs Seven Co.♦ | 50 | 1995 | 4 | $4\frac{7}{8}$ | 100 | Daiwa Europe GmbH | 4.875 |
| Japan Leasing Corp(v)★★†◆ | 75 | 1996 | 5 | (v) | 100 | WestLB | - |
| **SWISS FRANCS** | | | | | | | |
| Nippei Toyama Corp(c)★★♦◆ | 90 | 1996 | - | 5 | 100 | Nomura Bank (Switz) | 5.000 |
| SNCF(h)◆ | 150 | 2006 | - | $6\frac{3}{4}$ | 102 | Credit Suisse | 6.537 |
| IBM Int.Finance★★◆ | 150 | 1994 | - | $7\frac{1}{8}$ | 102 | Credit Suisse | 6.372 |
| Tele.L.M. Ericsson★★◆ | 75 | 1994 | - | $7\frac{3}{8}$ | $101\frac{5}{8}$ | Credit Suisse | 6.579 |
| Province of Quebec◆ | 200 | 2001 | - | $5\frac{3}{4}$ | $101\frac{1}{2}$ | UBS | 6.541 |
| Republic of Austria(o)◆ | 150 | 2001 | - | $6\frac{5}{8}$ | $101\frac{1}{4}$ | UBS | 6.452 |
| Republic of Austria(p)◆ | 150 | 2006 | - | $6\frac{3}{4}$ | 102 | UBS | 6.537 |
| Bque.Nat.de Paris★★◆ | 100 | 1994 | - | $7\frac{1}{4}$ | 102 | SG Warburg Soditic SA | 6.495 |
| Nordic Investment Bk★★◆ | 50 | 1994 | - | $7\frac{1}{8}$ | $101\frac{3}{4}$ | SG Warburg Soditic SA | 6.465 |
| Pokka Corp(q)★★♦◆ | 80 | 1996 | - | $4\frac{3}{4}$ | 100 | Credit Suisse | 4.750 |
| Jindo Corp(r)★★§◆ | 25 | 1996 | - | 6 | 100 | SBC | 6.000 |
| Mitsui Toatsu Chem.★★◆ | 100 | 1996 | - | $7\frac{5}{8}$ | $100\frac{1}{4}$ | SBC | 7.563 |
| Union Bk of Finland◆ | 100 | 1996 | - | 7 | $101\frac{1}{2}$ | Credit Suisse | 6.638 |
| **GUILDERS** | | | | | | | |
| Bank Mees & Hope NV◆ | 150 | 2001 | 10 | 9 | 100.80 | Bank Mees & Hope NV | 8.876 |
| Ned.Waterschapsbk.(w)◆ | 150 | 2001 | 10 | $8\frac{5}{8}$ | 100.65 | ABN Amro | 8.526 |
| **PESETAS** | | | | | | | |
| World Bank◆ | 15bn | 1996 | 5 | $13\frac{5}{8}$ | $101\frac{5}{8}$ | Banco Bilbao Vizcaya | 13.161 |
| **BELGIAN FRANCS** | | | | | | | |
| EIB(b)◆ | 7bn | 1999 | 8 | $9\frac{1}{4}$ | 101.05 | Generale Bank NV | 9.060 |
| **YEN** | | | | | | | |
| Mitsui Toatsu Chemicals◆ | 20bn | 1998 | $7\frac{1}{3}$ | $7\frac{1}{4}$ | $101\frac{3}{4}$ | Nomura Int. | 6.928 |
| Nissan Capital of America◆ | 10bn | 1996 | 5 | 7.20 | $101\frac{3}{8}$ | Yamaichi Int. | 6.866 |
| **LUXEMBOURG FRANCS** | | | | | | | |
| BBL Int.NV◆ | $1\frac{1}{4}$bn | 1998 | 7 | $9\frac{1}{2}$ | $101\frac{7}{8}$ | Credit Europeen | 9.126 |
| Bque Indosuez (Paris)★★◆ | 1bn | 1998 | 7 | $9\frac{1}{2}$ | $101\frac{7}{8}$ | Banque Indosuez | 9.126 |

★★Private placement. ♦With equity warrants. †Floating rate note ◆Variable rate notes. ◆Final terms. a) Issue is convertible into Banco Central ordinary shares, 40 days after launch, at a premium of 5%. Coupon payable semi-annually b) Callable 1995 at 102¾%, 1996 at 102%, 1997 at 101¼%, and 1998 at 100½%. c) Exercise premium fixed at 2.52%. Callable 21/6/93 at 102½%, declining ½% semi-annually. d) Exercise premium fixed at 2.53%. Non-callable. e) Callable from 5/3/94 at issue price plus coupon. Conversion premium fixed at 22.98%. f) Fixed price reoffer - 36.50%. Non-callable. g) Fixed price reoffer - 36.55%. Non-callable. h) Callable 14/3/2000 at 101% declining ¼% annually, thereafter. i) Fungible with existing 10% bond due 1997. Fixed price reoffer - 98¼%. j) Exercise premium fixed at 2.56% Non-callable k) Exercise premium fixed at 2.54%. Non-callable. l) Subordinated issue. Callable after 5 years at par m) Fixed price reoffer - 99.70% Non-callable. n) Callable at par on 12/3/93, 1994, and 1995 o) Callable after 8 years at 101% declining ½% annually, thereafter. p) Callable after 9 years at 101% declining ¼% annually, thereafter. q) Exercise premium fixed at 2.5%. Non-callable. r) Conversion premium fixed at 15%. Call option 31/12/93 at 110⅞%. Put option 31/12/93 at 110⅞% to yield 9.5%. s) Coupon payable semi-annually. Non-callable. t) Fixed price reoffer - 39.40%. Non-callable u) Further Ecu250mn allocated to Bank of England to regulate liqidity of issue. v) Coupon pays 6-month Libor + 30bp. Non-callable. w) Issuer also launching 150,000 warrants at Fl17.75 each, 5 warrants exercisable from 28/3/91 to 27/3/92, into one bond of identical terms priced at par. Non-callable. Note: Yields are calculated on AIBD basis

# INTERNATIONAL CAPITAL MARKETS

UK GILTS

## Further reductions in rates forecast

THE great gilts market rally continued last week. Little stood in the way of the rise in prices at both short and long ends of the yield curve, so continuing the upward movement in the market that started last summer.

While a raft of data provided further indications about the depth of the UK recession and an easing in retail price inflation, the market was helped by last Wednesday's half a percentage point cut in base rates, bringing these to 13¼ per cent.

The long-awaited easing in borrowing conditions came amid general expectations that more cuts were likely later in the year. Furthermore, it was sufficiently cautious as to have only a minimal impact on sterling's position in the European exchange rate mechanism, doing little to shake the faith of overseas investors in buying sterling denominated securities.

The forward-looking stance of the gilts market was underlined by price movements over the week. Long duration gilts maturing after 2000 generally perform better than short gilts, illustrating the market's view that longer term trends are pointing towards significantly lower inflation figures .

Over the week, the benchmark 9 per cent Treasury bond maturing in 2008 put on one point, being quoted on Friday night at 94¾ to yield 9.67 per cent.

However, the shorter dated 10 per cent Treasury stock, maturing in 1994, managed a price rise over the week of less than half a point. This bond closed on Friday at 99$\frac{1}{16}$, with a yield of 10.19 per cent.

Much effort is being expended in the gilt market in assessing the rate at which the government will be able to reduce rates further later in the year, in an effort to restore economic growth and – by implication – lift its chances of winning the next election.

One complication is that three types of inflation are driving changes in the economy.

● Prices of manufactured goods at the factory gate appear to be showing unexpected resilience. Figures last Monday indicated a 1.2 per cent rise in these prices in January compared with December.

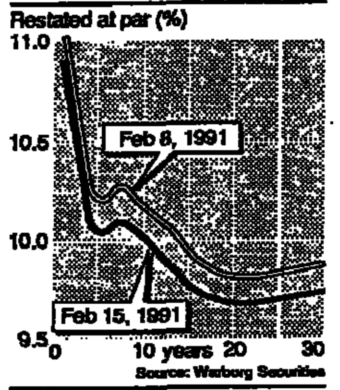
● Wage inflation appears still to be a problem for the government. With Thursday's figures showing a jump in unemployment to 1.9m came news that the underlying increase in average earnings across the economy was 9.75 per cent in December, unchanged for the third successive month. Falling productivity and rising wages pushed unit wage cost growth in the 12 months to December to 12.5 per cent – the highest for 10 years.

● Finally, retail price inflation fell in January for the third successive month, providing clear evidence that Britain's two-year battle to cap price rises at the consumer level looks like succeeding. The annual inflation rate for January was 9 per cent, compared with 9.3 per cent in December.

Disentangling the effects of these three types of inflation – and assessing their influences on the economy and on future expectations – is not easy.

**UK gilts yields**

Restated at par (%)




Source: Warburg Securities

The factory gate inflation figures for January may be a statistical blip, as ministers appear to believe. Mr James Barty, an analyst at Morgan Grenfell, has another explanation. "These price rises may simply be a question of companies attempting to feel for levels of demand among customers – if the conditions don't feel right, then the prices will come down again," he said.

In any case the price rises at the factory gate will have an effect on industrial customers or consumers only after the items in question have worked their way through a distribution chain, which provides plenty of room for any extra costs to be shared out by a number of groups such as transport companies.

Wage increases that appear to be too high pose more subtle problems. With a devaluation of the pound unlikely due to the ERM discipline, these extra costs pose an added burden for companies competing in worldwide markets.

As for the interaction with retail prices, while the rate of rise in the latter is slowing, the extra money in the pockets of people in work will greatly expand their purchasing power.

This is the "feel good" factor which could – according to economists such as Mr Chris Dillow, of Nomura – start to expand consumer spending and begin a new inflationary spiral all over again. "As retail price inflation comes down, it can only too easily set in train new forces that stop the decline continuing," is how Mr Dillow describes this process.

The government's stance in this context is to wage what amounts to psychological war on the electorate to convince it Britain cannot afford high wage increases – and as inflation comes down they are simply not necessary.

Assuming ministers get the message across, then many analysts have little trouble agreeing with the Treasury forecast that the annual rate of retail price inflation will continue to decline and reach about 5 per cent by December.

Providing a new set of inflationary forces is not kicked into life after this, the gilt market sees little to disturb a generally good period for rising prices and reduced yields over the next 12 months.

**Peter Marsh**

US MONEY AND CREDIT

## Recession factors continue to pile up

IN spite of the war in the Gulf, the bond market will continue to concentrate most of its attention on the economy, and with good reason.

The facts of recession have been piling up, and last week saw a catalogue of gloomy numbers. Producer prices were up more than expected in January. Retail sales were disappointing, especially the revision on the December data. They included one devastating fact: retail sales in the second week of January fell in nominal terms year over year for the first time since 1962.

There was also a sharp contraction in the trade deficit, a direct result of the slump in domestic demand and data, showing that over the last three months industrial output has fallen at a compounded annual rate of 13 per cent.

Armed with these figures, Congress is likely to give the chairman of the Federal Reserve a tough time this Wednesday as he makes the first of his biannual appearances before the House and Senate Banking Committees.

Mr Alan Greenspan's testimony at the Humphrey-Hawkins meetings will be keenly watched by the bond markets. Until recently he has not appeared unduly troubled by monetary aggregates. But in the past few weeks he has preached on several occasions the importance of tracking and controlling money growth.

Some of the country's best economists have blamed the current recession on the Fed and a monetary policy that was too tight for too long.

Monetary growth in the past months has been weak. M3, the broadest measure of money, grew by just 1 per cent in the past three months, right at the bottom of the Fed's provisional target range set last July of between 1 per cent and 5 per cent per year.

M2 growth has been even more sluggish, coming in at 1.3 per cent in the last three months, well below the Fed's target range of 2.5 per cent to 6.5 per cent. As for M1, the narrow measure of money, it has grown by 2.5 per cent since November. The Fed does not set a target range for M1 because it believes the measure to be unreliable as an economic indicator and useless as a tool of monetary policy.

But, that attitude is changing. Mr Greenspan recently hinted he might bring back M1 targetting, claiming that since M1 was no longer so volatile, it deserved fresh attention.

With this in mind, the bond markets are looking to Humphrey-Hawkins for the answer to two questions. Will the Fed change its target ranges for money? And, will it put a target on M1? If the answer on both accounts is yes, expect bond prices to react favourably because it will confirm that money growth has risen to the top of the Fed's agenda. It would also prompt renewed speculation that a further cut in interest rates is near.

However, not everyone is sure Mr Greenspan has the room for more interest rate cuts. Last week's producer prices data included a troubling 0.5 per cent rise in the core rate. This Wednesday's consumer prices for January could also ring inflation alarm bells.

Analysts are expecting a rise of 0.4 per cent in consumer prices, with the core rate (excluding food and energy) up by as much as 0.6 per cent.

Any sign that inflation might be seeping back into the system could give Mr Greenspan cause to pause before cutting rates again. But the need to inject more life into the economy, and get banks lending again, will probably override the inflation concerns.

**Patrick Harverson**

**US MONEY MARKET RATES (%)**

| | Last Friday | 1 week ago | 4 wks ago | 12-month High | 12-month Low |
|---|---|---|---|---|---|
| Fed Funds (weekly average) | 4.00 | 5.75 | 6.50 | 11.00 | 4.00 |
| Three-month Treasury bills | 6.07 | 6.07 | 6.32 | 7.98 | 6.07 |
| Six-month Treasury bills | 6.13 | 6.13 | 6.53 | 8.04 | 6.13 |
| Three-month prime CDs | 6.50 | 6.50 | 7.28 | 9.01 | 6.50 |
| 30-day Commercial Paper | 6.25 | 6.35 | 7.00 | 9.95 | 6.25 |
| 90-day Commercial Paper | 6.20 | 6.40 | 6.95 | 10.05 | 6.20 |

**US BOND PRICES AND YIELDS (%)**

| | Last Fri. | Change on wk | Yield | 1 week ago | 4 wk. ago |
|---|---|---|---|---|---|
| Seven-year Treasury | 101$\frac{1}{8}$ | -$\frac{1}{8}$ | 7.65 | 7.64 | 7.90 |
| 20-year Treasury | 112¼ | +$\frac{1}{16}$ | 7.95 | 7.95 | 8.22 |
| 30-year Treasury | 98$\frac{11}{32}$ | -$\frac{3}{32}$ | 7.97 | 7.97 | 8.22 |

Source: Salomon Bros (estimates).

Money supply: In the week ended February 11, M1 rose by $3.3bn to $833.5bn

**NRI TOKYO BOND INDEX**

| December 1983 = 100 | 14/2/91 | Average yield (%) | Last week | 12 wks ago | 26 wks ago |
|---|---|---|---|---|---|
| | PERFORMANCE INDEX | | | | |
| Overall | 153.74 | 6.86 | 153.06 | 147.62 | 143.37 |
| Government Bonds | 152.07 | 6.65 | 151.15 | 144.82 | 140.09 |
| Municipal Bonds | 156.37 | 6.88 | 155.79 | 150.37 | 144.69 |
| Govt.-guaranteed Bonds | 158.41 | 7.02 | 157.99 | 152.58 | 147.76 |
| Bank Debentures | 150.29 | 6.92 | 149.74 | 145.65 | 142.09 |
| Corporate Bonds | 154.90 | 7.48 | 154.69 | 149.59 | 147.05 |
| Yen-denom. Foreign Bonds | 158.09 | 8.11 | 157.85 | 151.65 | 154.74 |
| Government 10-year† | 6.35 | - | 6.46 | 7.01 | 7.38 |

† Estimated par yield

Source: Nomura Research Institute

BELGIAN BONDS

## Belgium poised to launch Ecu1bn issue

BELGIUM is planning to launch an Ecu1bn issue of five-year bonds this week, following the UK's Ecu2.5bn gilt issue last Wednesday. Belgium's last fixed-rate Ecu transaction was an Ecu150m offering launched in January 1989.

An official at the Belgian Treasury said a final decision was delayed on Friday, due to the uncertainty generated by Iraq's conditional offer to withdraw from Kuwait. A decision is likely to be taken tomorrow.

The bidding competition between banks hoping to arrange the Belgium issue is not fraught with the political tension which beset the UK's deal last week. The Bank of England surprised international bankers by assigning the deal to Morgan Stanley, the US investment bank, which has no record in underwriting large Ecu transactions.

The Belgian Treasury official said the mandate will not be awarded to the most aggressive bidder. The Treasury plans to keep the funds in fixed-rate Ecu, as Ecu and Belgian rates are currently "comparable".

The Belgians have been reviewing the market since the start of the year. The Treasury originally wanted to raise seven or 10-year funds, but eventually decided to tap the less competitive five-year area. At seven or 10 years, the price of the deal would have had to be set in relation to France's OAT issues or the UK Ecu gilt launched last week. The premium level to be paid by Belgium could have been a contentious point.

Belgium will be better able to "set its own terms" at five years, one banker said. The bonds would probably be priced to yield a little more than 9 per cent. Comparable issues by Spain and the European Community are currently yielding just above the 9 per cent mark.

Belgium will not increase its external debt this year, the official said, but will need to refinance a substantial amount of maturing bond issues. The Treasury is also keen to replace some of its short-term funding with long-term financing in the bond market, though no amount has been fixed.

**Tracy Corrigan**



**FT/AIBD INTERNATIONAL BOND SERVICE**

| U.S. DOLLAR STRAIGHT | Issued | Bid price | Chg on week | Yield |
|---|---|---|---|---|
| ABBEY NATIONAL 8 7/8 93 | 150 | 101¼ | +⅛ | 7.91 |
| ABN 9 1/8 94 | 200 | 102¼ | +⅛ | 8.28 |
| AETNA LIFE & CAS 7 3/4 16 | 200 | 98⅜ | +⅛ | 7.85 |
| ALBERTA PROVINCE 8 5/8 96 | 750 | 101⅝ | +⅛ | 8.22 |
| ALBERTA PROVINCE 9 3/8 95 | 600 | 104⅝ | +⅛ | 8.13 |
| AMERICAN EXPRESS 0 00 | 450 | 40⅜ | +⅛ | 9.67 |
| AMERICAN GENERAL 9 3/4 95 | 100 | 97⅞ | +⅛ | 10.34 |
| ANHEUSER-BUSCH 9 1/8 92 | 100 | 101⅞ | +⅛ | 7.75 |
| ASIAN DEV BANK 0 04 | 1000 | 31⅜ | +⅛ | 8.81 |
| AUSTRALIA 11 95 | 200 | 109¼ | +⅛ | 8.36 |
| [illegible] | | | | |
| SAS 10 1/8 95 | 150 | 102 | -⅛ | 9.56 |
| SASKATCHEWAN 15 92 | 150 | 109½ | | 7.93 |

| | Issued | Bid price | Chg on week | Yield |
|---|---|---|---|---|
| SBAB 9 1/2 95 | 500 | 104½ | +⅛ | 8.19 |
| SEAGRAM CO 8 1/2 96 | 100 | 97⅝ | -⅛ | 9.15 |
| SEARS O/S FIN 0 98 | 500 | 48 | +⅛ | 10.41 |
| SEARS O/S FIN 11 5/8 93 | 150 | 104⅝ | +⅛ | 9.53 |
| SKANDIA INTL 7 1/4 92 | 200 | 99½ | | 7.75 |
| SNCF 7 1/4 94 | 175 | 99⅜ | +⅛ | 7.49 |
| SNCF 9 1/2 98 | 150 | 106 | +⅛ | 8.37 |
| STATE BK STH AUST 9 1/4 93 | 100 | 102⅛ | +⅛ | 7.98 |
| STATE EL VICTORIA 10 92 | 100 | 103½ | | 7.79 |
| STATOIL 7 5/8 94 | 200 | 97⅞ | +⅛ | 8.50 |
| STH AUST GOVT FIN 8 3/4 93 | 100 | 101⅞ | | 8.00 |
| [illegible] | | | | |
| WORLD BANK 5 3/4 96 | 300 | 87⅝ | +⅛ | 8.87 |
| WORLD BANK 7 1/8 95 | 500 | 94¼ | | 8.92 |

| SWISS FRANC STRAIGHTS | Issued | Bid price | Chg on week | Yield |
|---|---|---|---|---|
| ASIAN DEV BANK 6 10 | 100 | 90½ | +2½ | 6.89 |
| AUSTRIA 4 5/8 98 | 100 | 89 | -⅛ | 6.64 |
| CHUJITSUYA 7 3/4 95 | 50 | 102½ | +1 | 7.07 |
| COUNCIL EUROPE 4 3/4 98 | 250 | 89 | -1½ | 6.77 |
| EEC 5 1/2 00 | 100 | 90 | -1½ | 6.94 |
| EIB 5 3/4 93 | 100 | 98½ | -⅛ | 6.36 |
| ELEC DE FRANCE 7 1/4 06 | 100 | 104 | +1 | 6.83 |
| FINLAND 5 3/8 95 | 150 | 94½ | -⅛ | 6.77 |
| GENERAL MOTORS 7 1/2 95 | 100 | 101⅝ | -⅛ | 6.99 |
| JAPAN DEV BK 5 1/2 94 | 100 | 97 | +½ | 6.64 |
| NEW ZEALAND 4 7/8 99 | 200 | 89 | +⅛ | 6.70 |
| [illegible] | | | | |

| EQUITY WARRANTS | Expiry | Bid price | Chg on week | Prem |
|---|---|---|---|---|
| [illegible] | | | | |
| UNITIKA | 15/07/92 | 20¾ | +3¾ | 11.51 |
| YAMANOUCHI PHARM | 20/07/93 | 4⅛ | | 62.93 |
| [illegible] | 30/06/92 | 4¼ | +1¼ | 35.00 |

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on February 15

FINANCIAL TIMES SURVEY

# PANAMA

The Canal; Trade zone; US assistance; statistics and map Page 2

Economic outlook; banks, services; army's exit; man to watch page 3

Monday February 18 1991

**Full operational control of the strategic Panama Canal is due to pass into Panamanian hands in 1999. This will seriously test Panama's relationship with the US, which overthrew the corrupt regime of General Noriega 14 months ago. Tim Coone reports**

## A decisive decade

ATOP Ancon Hill, a large Panamanian flag flutters in the incessant breeze. From this strategic location overlooking the Pacific entrance to the Panama Canal, US troops opened fire on the headquarters of General Manuel Antonio Noriega on the night of December 20, 1989.

Within days, the US had subjugated the upstart nationalist leader whose corrupt regime had become a thorn in the side of two successive US administrations.

Just over a year later, as US soldiers embark upon a far bigger battle in the Gulf,

difficult strategic decisions confront Panama's new leaders, who are drawn from a loose-knit coalition of centre-right and traditional right-wing parties. They must chart a new course for Panama, which is an entrepôt bestriding some of the world's main shipping lanes.

One decision concerns the future of the US military bases in Panama. Under the 1977 Carter-Torrijos Treaty, these must all be turned over to Panama by 1999 unless mutually agreed otherwise.

According to Mr Deane Hinton, one of the US State Department's most senior diplomats and presently the US ambassador to Panama, "there is no present intention on the part of the US to keep the bases". The Gulf War could change perceptions, though.

President Guillermo Endara has said that he is not prepared to discuss the strategic issues of the Canal or the bases during his administration which ends in 1994. Such geostrategic considerations, he says, are now of less concern than the immediate task of how to put Panama's house back in order. Two years of US sanctions prior to the invasion, followed by war damage and looting has set back Panama's economy by 16 years in terms of per capita income.

The $4.2bn foreign debt burden, of which $2.7bn is in arrears, is holding up new flows of credit. A comprehensive rescheduling package, including the commercial banks, may take most of 1991 to complete. Recovery is proving to be a painfully slow process, frustrating many of the hopes and expectations created by General Noriega's demise. Many Panamanians feel that US economic aid of $420m has been inadequate. Mr Hinton disagreed: "I feel US aid to Panama has been extremely generous." There had been more appropriations since the invasion than in the entire period since World War Two.

The Panamanians' strength has been to declare "business-as-usual" despite the difficulties. Trade is again booming, largely fuelled by suppliers' credit. The Colón Free Trade Zone, the second biggest in the world after Hong Kong, had a record year in 1990. Turnover was $6bn.

The Panamanians' weakness, though, has been a political one in that as long as business was good, as it was during the 1960s, 1970s and most of the 1980s, they were content to go with the government or military leader of the day. Corruption was a fact of life before General Noriega, and still is.

According to a foreign banker in Panama, "they caught Ali Baba, but not the 40 thieves". However, most businessmen, bankers and diplomats agree that the new government is working hard to clean up Panama's image. New restrictions introduced last May now oblige bankers to report all cash movements greater than $10,000 to the authorities. Specific investigations into narcotics-related crime can result in the freezing and investigation of accounts.

But the Panamanians have baulked at US efforts to go further in lifting their banking secrecy laws. Negotiations are deadlocked over a Mutual Legal Assistance Treaty (MLAT) which the US wants to embrace US tax evasion investigations. Panama's banking community has dug in its heels.

"We welcome an MLAT but not one which disadvantages us relative to other offshore centres", said Mr Edgardo Lasso, president of Panama's Banking Association.

Meanwhile there is a growing recognition that Panama cannot live solely from services and its offshore financial activities. More than 30,000 new jobs a year are needed just to keep pace with new entrants to the labour market. Unemployment is widely estimated at 25 per cent of the 850,00C workforce. If the US bases are closed after 1999, the economy will lose income estimated at $200m a year.

Meanwhile, ship transits through the Canal are dropping and use of the trans-isthmus oil pipeline is falling sharply because of the changing trade patterns of recent years. Both have been important revenue earners for the central government.

Mr Billy Ford, the planning minister, said: "the bottom line is that we must open up the market and look outwards". He said that a privatisation programme, an overhaul of the social security system and a reduction of tariff barriers would be in a new package of legislation.

Regulations have recently been approved for the creation of *maquilla* industrial zones (for in-bond assembly of semi-finished foreign goods). Far Eastern investors are said to be interested in them. A project known as Centreport, which will create a modern container port at either end of the Canal linked by a highspeed railway and highway, is to be offered to private investors. Debt-swap or buy-back schemes are under consideration as means to help finance these projects.

Mr Ford's ambitious plans face formidable political hurdles, though. Reduction of tariff barriers threatens vested interests in existing agricultural and industrial enterprises. Privatisation is being resisted by the trade unions.

Meanwhile proposed reductions in state pension benefits and the lifting of employment protection laws are political minefields.

By-elections at the end of January produced a sizeable swing to the left-wing and nationalist opposition prompting a Christian Democrat leader in the government to say that "fighting unemployment must now be a top government priority".

According to Mr Fernando Manfredo, an *éminence grise* in the Panamanian business community and former deputy administrator of the Canal, "we cannot simultaneously repay the debt bill and invest for growth with the limited resources the government now commands."

He and other economists warn that sharp structural adjustments coming on the heels of the severest recession in Panama's history could prove disastrous.

It is a view shared by Mr Ricardo Arias, the first vice president and interior minister, who heads the Christian Democrat party. His strong party links to Europe and Latin America also contrast with his main coalition partners, Mr Ford and President Endara, who incline more towards the US.

"We need a solid base of relations with the US but we also have to integrate with central America and Latin America and open our doors to the east and the European Community....It concerns me deeply that we do not have better relations with the Mexicans," Mr Arias said.

A testy President Endara recently insulted the Latin American diplomatic community which has been pressing him to grant safeconducts to former Noriega associates who sought asylum in several Latin American embassies in Panama during the invasion.

"I will not sell Panama's dignity for a few drops of oil," he fumed. Like the Ancon flag, Panamanian pride can be prone to bluster.

With Panama preparing for full operational control of its vital waterway in 1999, a guard at the Miraflores Locks liaises with a vessel in transit

ECONOMY

# A veneer of normality

"MOTHERCARE has arrived from England," says a banner outside a brand new shopfront in the ritzy Via Espana shopping mall of Panama City.

Just over a year ago, looters rampaged through the stores that stood along the Via Espana and elsewhere throughout the city in the breakdown of law and order that followed the US invasion. Looting cost the business community an estimated $500m.

Today, there is little evidence of that trauma. Shops have been repaired and restocked. The recovery was achieved with little bank credit, little foreign aid and no insurance compensation.

The choice of Panama for the first Latin American outlet of Britain's famous baby-wear company is a positive sign of renewed overseas confidence in the country.

But the image of normality is deceptive. The boom in retailing disguises severe underlying economic problems – a 25 per cent unemployment rate, underemployment affecting a further 10-15 percent of the 850,000 workforce, public sector overmanning and the loss of ability of the public sector to finance itself."

The modest GDP growth of 3.8 per cent in 1990, is largely attributed to the restocking of inventories and the termination of previously abandoned construction projects. The most optimistic official projections are for a growth of 6 to 7 per cent in 1991. Measured against the fall of 25 per cent in GDP between 1987 and 1989, recovery is slow and only marginally greater than the population growth rate.

The new government achieved a surplus on its 1990 budget, but at the cost of foreign creditors who have not received payment on their loans since 1987. Of the government's $4.2bn foreign debt 60 per cent is in arrears.

Successful debt rescheduling this year is therefore vital if the economy is to be stabilised. A complex chain of negotiations lies ahead.

Agreement was reached in November last year with the Club of Paris to reschedule $530m of bilateral debt over 10 years with an initial five-year grace period. Interest payments will begin in the second quarter this year. The deal will fall, however, if a further $610m of overdue payments to the IMF, World Bank and Inter-American Development Bank (IADB) cannot be honoured by June. Funds have been promised by Japan, Europe and the US, including a bridging loan from the US Treasury, but the government is still $40m short.

Ms Luisa de Soto, who handled the Club of Paris negotiations, said that once credit flows from the multilateral and bilateral institutions can be reestablished, a menu of options will then be offered to holders of $2.3bn in commercial bank debt, now trading at 12-13 per cent of its face value on the secondary market.

A team of overseas financial specialists have been contracted by the government to draw up the menu. "We are trying to turn the debt from a problem into a vehicle for generating new investment flows," said a member of the team.

A government plan of privatisations and the scheduled return of all the former Panama Canal Zone to the government by 1999 opens up possibilities for debt-equity conversions, he said. Major infrastructure projects such as the proposed "Centreport" intermodal transport link, new power stations and even mining projects could be constructed on leased sites using debt-conversions to buy the leaseholds. "We intend to give marketable solutions," he said.

Meanwhile, Mr Billy Ford, the planning minister, points to efforts to rationalise the public sector and to streamline the economy for export-orientated growth. "We are eliminating monopolies and subsidies and carrying out fiscal reform.... We do not expect internal demand to provide the growth we need, so we must look to the export market." He is one of the key figures behind the promotion of *maquilla* sub-assembly industries with Far Eastern capital in Panama with a view to reexporting to the US market.

For the same reason he sees sluggish internal demand as not providing adequate opportunities for growth;, he is also sceptical of Central America becoming a viable market and of its recent efforts to draw Panama into a new regional trading block. "No decision has been taken to integrate into a Central American block, although we are taking steps to coordinate with the other countries. But no way can this be done overnight."

**Tim Coone**

BANKING AND FINANCE

# Long road to recovery

SOME 70 per cent of Panama's gross national product is produced by the service sector. Not surprisingly, this sector suffered most in the three year crisis before the 1989 US invasion.

The banking system was the worst hit. US economic sanctions dried up liquidity and triggered a freeze on local deposits in March 1988. Between December 1986 and December 1989, offshore deposits plummetted from $28.9bn to $3.6bn.

Total assets of the banking system have since pulled back to $18bn. The biggest recovery was in local deposits; at $4.6bn at the end of last year they exceeded the pre-crisis level of $4.2bn. All deposit restrictions were lifted last June.

Offshore deposits, however, have only pulled back to some $5bn. The reason, bankers say, are the stalled negotiations with the US over a Mutual Legal Assistance Treaty (MLAT). The Panamanian authorities have agreed to sign a treaty which will lift Panama's strict banking secrecy regulations to facilitate drug trafficking and money-laundering investigations, but not for cases of tax evasion.

"The US wants us to be an investigative arm of the Inland Revenue Service, a kind of fiscal police," complained the head of a Panamanian commercial lawyers' association which is lobbying the government not to sign the far-reaching treaty the US desires.

"Such a treaty would destroy the offshore centre", he said, a view shared by most of Panama's business community. Mr Deane Hinton, the US ambassador in Panama is unsympathetic. "If they have nothing to hide what are they afraid of", he said.

The Panamanians point out that tax evasion is not an imprisonable offence in Panama and that privileges cannot be extended to a foreign government which are not available to Panama's government. Some 8,000 jobs depend directly on the offshore banking centre, with several thousand more in related offshore businesses.

**Panama is a natural financial bridge between Latin America and the English-speaking world**

Some $84m in economic aid is conditioned on the signing of the Treaty, but the Panamanian reaction, including the government's, has been "If we don't get it we can do without it."

It is noteworthy that a similar treaty will shortly be signed with the UK but will only extend to drug-money laundering and terrorist investigations.

Panama's annual $300m insurance and reinsurance business has also been badly hit possibly irreversibly. The liquidity crisis dried up premiums before the invasion and then reinsurers refused to pay claims for looting losses after it, arguing that a state of war existed, which was not covered in most policies. Local insurers were obliged to take a similar attitude with their clients, creating much resentment and a major loss in confidence. The legal battle goes on.

Two areas of offshore business which do show promise, however, are Secnaves, Panama' shipping registry, and leasing.

Panama's "flag of convenience" lost only 5m tonnes of the 66m peak it reached in 1989 due to US sanctions imposed shortly before the invasion. *Mr Luis Fabrege*, Secnaves' head, said that a clean-up of the registry and the changing of most of the 56 overseas maritime consuls has simplified registration procedures and paperwork and improved the registry's image.

Incentives are also being offered to major shipowners to transfer back to the Panamanian registry. He said that he expects Panama to be back at the top of the world's shipping league in 1991.

Meanwhile, legislation passed last year has created hopes that leasing will become a new growth industry in Panama.

The new law together with income tax exemptions, the ease of company incorporation, the presence of the offshore finance centre and the local availability of skilled financial and legal experts now make Panama an attractive base for offshore leasing operations of everything from cars and machinery to ships and aircraft.

Indeed, Panama's largely bilingual business community and its strong tradition as a provider of offshore financial services will continue to make it a natural business centre linking Latin America and the English-speaking world. It is likely to take several years, however, before it recovers the importance it enjoyed during its heyday in the 1970s and 1980s.

Tim Coone

Billy Ford

# First among equals

WHEN Billy Ford appeared on the front cover of *Time* magazine in May 1989, it was not as he would have wished. Photographed moments after an *assassination* attempt, his shirt was drenched in the blood of his bodyguard as he fled from the crowbars of Gen Manuel Noriega's Dignity Battalions.

On the same day, Noriega annulled the election results that would have brought Panama's democratic opposition coalition to power. Mr Ford had stood for the coalition as a vice-presidential candidate.

It is hard to believe that the relaxed and confident planning and economy minister who now greets you is the same man. Since taking office in January 1990, Mr Ford has become *primus inter pares* in Panama's ruling triumvirate. Although Mr Guillermo Endara holds the presidency, and the interior ministry went to Mr Ricardo Arias Calderon as leader of the majority Christian Democrats, it is Mr Ford who has the key task of rebuilding Panama's shattered economy.

Mr Ford, 54, is an old hand in politics – he was exiled by General Omar Torrijos in 1976 – but he represents that new breed of Latin American businessmen/politicians who are committed to reforming state bureaucracies and giving the private sector more breathing space.

His background is in banking and insurance, and back in the 1960s he helped draft the core legislation that transformed Panama into an international financial centre.

He has radical plans for Panama's economy, which frequently clash with Mr Arias Calderon's more corporatist vision of government.

**Businessmen are the backbone of his political machine**

He wants to put the state-run water, electricity and telephone services on a commercial footing and privatise other loss-makers, such as sugar mills and a cement plant. Mr Arias Calderon fears this will incur the wrath of the public sector unions. Mr Ford also wants to lower import tariffs, even though he recognises that it will hurt local industry.

A year into the Endara administration, these tensions remain unresolved. Mr Ford's outspoken, no-nonsense approach has won him many admirers, but also many enemies. "He is not a rabble-rouser or a demagogue, but he has upset many vested interests by speaking his mind," says a friend. His strongest support comes from businessmen, who see him as a competent administrator and good negotiator. Businessmen also form the backbone of Mr Ford's Liberal Movement of Nationalist Republicans (Molirena), a centre-right party he launched in 1981.

If Mr Ford succeeds in generating economic growth and employment through his economic reforms, he could emerge as the strongest contender for the presidency in the 1994 elections. Mr Ford and *Mr Arias Calderon*, who also share the posts of first and second vice-president, say it is too early to start airing presidential ambitions. Both are holding their cards close to their chests.

Lesley Crawford

**Tim Coone** takes the pulse of post-Noriega politics

# A safer place without an army

PANAMA'S new leaders have learned that one can never be complacent in politics.

Almost two years ago, the Revolutionary Democratic Party (PRD) stole the general elections in a futile effort to stay in power. It had been soundly defeated after being discredited by its uncritical support of General Noriega, as evidence and accusations mounted of his links to the Colombian drugs mafia, arms dealing and of widespread corruption within his administration.

The electoral fraud simply hastened the downfall of General Noriega, and with him the PRD. Few expected the PRD to recover.

**Unemployment will remain a long-term political threat**

But last month, in a remarkable comeback, it won five out of nine vacant seats in by-elections to the National Assembly. The poll has been described as the cleanest elections in Panama for 30 years.

With Noriega out of the way, the ideals of the party's founder, General Omar Torrijos, apparently still have a large following.

General Torrijos, who had come to power through a military coup in 1968, attempted to institutionalise his populist brand of politics by founding the PRD in the early 1970s, as an electoral alternative to the traditional parties which were dominated by white upper-class businessmen - the so-called "rabi-blancos".

General Noriega (left) and President Guillermo Endara: the dictator and the democrat

Under Torrijos, public sector employment expanded five-fold and state-run enterprises were established during the 1970s with recycled petrodollars. The army brought roads, health clinics and housing to rural areas. The PRD became associated with these programmes.

The PRD was initially a political wing of the Panamanian Defence Forces (PDF), but Torrijos' goal was gradually to withdraw the army into the background and out of politics.

According to Mr Carlos Duque, a former Noriega associate and presidential candidate for the PRD in 1989, "we have made many mistakes. It is time to reorganise the party, reform its statutes and base it firmly on Torrijista principles for the 1994 general elections". By severing the umbilical cord between the PRD and PDF, the invasion has helped the PRD achieve Torrijos' original goal.

The PRD now has 12 seats in the 67-legislative assembly, more than President Guillermo Endara's own Authentic Liberal party.

Mr Endara has a weak political base, and was chosen deliberately as the compromise candidate for president within the ADOC coalition that now governs the country. He is the balancing force between his two stronger rivals – the Christian Democrat (CD) leader Mr Ricardo Arias, who is the Interior Minister and first Vice President, and the Molirena party's Mr Billy Ford, the Second Vice President and planning minister.

The CD is the principal political force in the country, followed by Molirena, a traditional "caudillo" party with neo-liberal ideology. Together they hold the majority in the Assembly.

**The Canal needs policemen, not soldiers**

The by-election results, though, were a clear warning of what is likely to happen in 1994 if the unemployment problem is not resolved quickly. If Mr. Ford successfully implements his structural adjustment plan against the resistance of the PRD-run unions and brings in new investment rapidly, he will probably emerge as the centre-right's candidate for 1994.

Otherwise, Mr Arias, heading a more moderate CD platform, will be the one to confront the re-emergent PRD and its smaller ally, the Labour Party, at the polls. In the meantime, they must try to maintain unity.

Perhaps the most positive result of the by-elections is that the PRD will now be encouraged to drop its militarist image. Thousands of PRD members received military training during Noriega's three-year confrontation with the US in the so-called "Dignity Battalions". A small group, possibly linked to these, claimed responsibility for a recent grenade attack against the US embassy in Panama. According to Mr Ricardo Arias, however, there are no "organised" guerrilla groups.

The new police force was created out of the defeated PDF, but half of its former officers have been replaced and Mr Arias is now confident of its loyalty: "I expected many problems with the police afterwards, but on the contrary it appears to have consolidated their commitment to change."

Insisting that Panama would "never have another army", he argues that with the ending of the Cold War no direct military threat to the Canal now exists and there is no need for a military force. "Its defence can be reduced to a policing operation" he says.

Thus the removal of the military from Panamanian politics is perhaps the single most significant change that has taken place since the invasion. As such there can at least be hope for a more stable future.



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## THE PANAMA CANAL

# In search of a masterplan

WITH less than nine years to go before Panama takes complete operational control of the Canal, President Guillermo Endara's administration appears to have given little thought to what kind of body will run it, or how to guard this strategic waterway.

Mr Deane Hinton, the US ambassador, says the US is trying to impress on Panama the need for some forward planning. But it is as though the Canal is a taboo subject.

Decisions will be needed on whether the Canal will become an autonomous agency or will fall under direct government control; whether it will continue to be run as a public service for international shipping or whether it should be turned into a profitable commercial enterprise.

Shipping agents, worried by the lack of direction, fear that Panamanian governments after the year 2,000 may be tempted to use the Canal as a milch cow, and that tolls may be increased arbitrarily.

Panamanians admit that the 1980s were a lost decade with regard to preparing for devolution. The political turbulence of the Noriega years made a shambles of taking over the ports, the trans-isthmus railroad and lands handed over by the US government under the Canal Treaty which took effect in 1979.

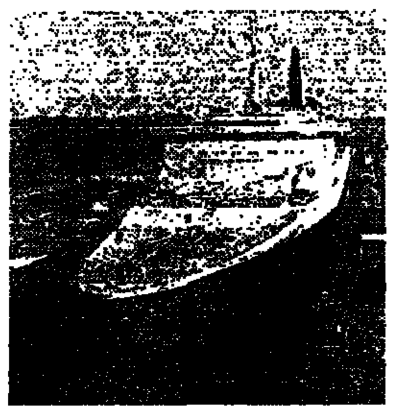
Mr Adrian Holmes, director of operations at the shipping agents CB Fenton, says that the Pacific port of Balboa, beside Panama City, has slipped from being a mediocre port to a poor port over the past 20 years. "The word maintenance does not exist in the Panamanian vocabulary", he says. The facilities are inadequate, the charges exhorbitant and Balboa can no longer compete with rivals such as Miami, Kingston or Cartagena. It can take five days to move containers across the 80 km trans-isthmus railroad. Even Mr Billy Ford, Panama's planning and economy minister, says he would "rather walk" than travel by train. Mr Ford estimates $30m are needed to modernise the railway.

It is unfair to lay the blame for past negligence on the year-old Endara government, but shipping agents are anxiously waiting for signs that the new administration will make up for lost time.

"What we need is a masterplan," says Mr Ford. He would like to open the former Canal Zone, a five-mile strip of land that runs along the Canal, to international bidding for the construction of airports, heavy industry and container ports. "Panama has to start thinking big," he says.

The war in the Gulf is also concentrating minds on the future defence requirements of this vital world shipping route. The US Southern Command (Southcom), which is based in Panama, has stepped up security following Iraq's threats to attack US interests worldwide. There is no bigger or more obvious target than the Panama Canal.

Under the Canal Treaty, the US must withdraw its 10 military bases and 10,000-strong force by the turn of the century. This could be reviewed. General Noriega's defence forces were dismantled after the December, 1989, US invasion, and the new government is trying to build a civilian police force from scratch.



Tight squeeze: the Queen Elizabeth II in one of the Canal's locks

Apart from the lack of preparation, Mr Ricardo Arias Calderon, Panama's interior minister, is worried about the cost of protecting the Canal. Nobody in the present government, whose mandate expires in 1994, wants to discuss Southcom's departure. It will be left for the next president to decide.

Political considerations aside, the Canal will also have to respond to changing trade patterns and to technological advances in the transport industry. The Canal has already lost much of its container business to the US Intermodal Network. This is a system whereby container ships from the Far East unload their goods on the west coast of the US, which are then carried on double-stack trains to midwest and eastern states.

The Intermodal Network is cheaper and about a week faster than the all-water route through the Canal. Almost all automobile parts now move through the Intermodal Network, as do costly items such as computers and audio-visual equipment.

Container cargo, however, has never exceeded 15 per cent of the Panama Canal's business. Bulk commodities, such as grains, coal, sugar and fruit, will continue to use the Canal for the foreseeable future.

The Panama Canal Commission (PCC), the US government agency in charge of operating the Canal until the turn of the century, foresees great changes in world trading patterns as a result of the end of the Cold War. Mr Richard Wainio, the PCC's director of executive planning, believes that irrational trading relations will be rearranged once political obstacles are removed.

"Trade will become more efficient," he says. "It does not make sense for Cuba to supply sugar to China instead of the US and for the Philippines to supply the US instead of China."

Nevertheless, Mr Wainio believes the Canal will still be a huge operation after the year 2,000. Some 40 ships cross the Canal each day and about 150m tonnes of cargo transit through the waterway each year. This is down from a peak of about 186m tonnes in 1982. The growth in traffic has been slower than expected, and this has made the search for alternatives to the 77-year-old Canal less urgent. The crunch in shipping demand is not expected before the year 2007.

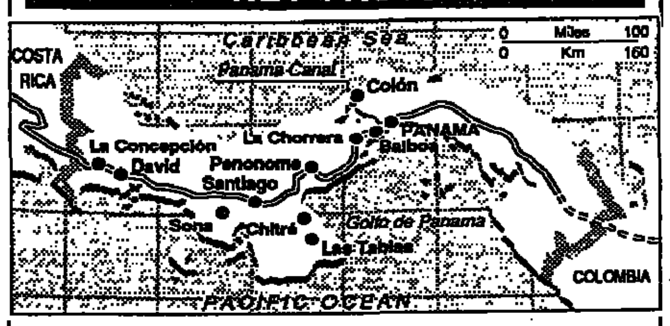
Panama, Japan and the US formed a tri-partite commission in 1986 to study various alternatives, including a new sea-level waterway, trans-shipment facilities or a new set of locks for the Panama Canal. The estimated $30bn cost of building a new waterway almost rules out this option, and Mr Wainio does not envisage any rival to the Canal at this stage.

The Canal would be able handle more ships if it were to build a new set of locks. But the most pressing demand, given rising shipping costs, is to reduce the "average" transit time of 24 hours. This could be done by widening the eight-mile Gaillard Cut, the Canal's narrowest passage that slices through Central America's backbone. Two big ships cannot pass each other in the Gaillard Cut, and this slows down traffic.

Mr Wainio expects the PCC to come to some decision on the widening of the Gaillard Cut this year. The project may be put on hold, or it could be given the green light. However, the PCC may not wish to begin a long-term investment project that would continue beyond the end of its jurisdiction in 1999.

**Lesley Crawford**

### KEY FACTS




| | |
|---|---|
| Area | 75,990 sq km |
| Population | 2.4m (1990 estimate) |
| Head of state | President Guillermo Endara |
| Currency | Balboa, at par with $ |

| | 1989 | 1990 |
|---|---|---|
| Total GDP ($m) | 4,549 | |
| Real GDP growth (%) | -0.9 | n.a. |
| GDP per capita ($) | 1,868 | |
| Retail prices (% change pa) | 0.0 | 0.4 Q2 |
| Unemployment (% of lab force) | 16.0 | 20.0 |
| Reserves minus gold ($m) | 119.4 | 274.5 Aug |
| Current account balance ($m) | 375 | |
| Exports ($m) | 2,723 | n.a. |
| Imports ($m) | 3,185 | |
| Trade balance ($m) | -462 | |
| Total external debt ($m) | 6,800 | n.a. |
| Canal transits | 13,389 | 13,325 |
| Canal earnings ($m) | 329.7 | n.a. |
| Ship registry (m tonnes) | 65.6 | 60.9 |

*Source: IMF, EIU, Panama Canal Commission, Panamanian government, US Chamber of Commerce*

**Lesley Crawford** on the trade zone at the world's crossroads

# Where taxmen feared to tread

THE abandoned customs police headquarters in the Atlantic port of Colón still bears the scars of the 1989 US invasion. This former stronghold of General Noriega was bombed, set on fire and riddled with bullets, bringing a dramatic end to the corrupt administration of the biggest free trade zone in the western hemisphere.

During the Noriega years, no company could establish itself in the Colón Free Zone without under-the-counter payments to the military administration. The same officials would turn a blind eye to contraband.

Corruption became so ingrained that the military even formed their own company, Transit, whose sole purpose was to collect bribes from the smuggling of goods out of the Colón Free Zone.

A new civilian administration took over the Colón Free Zone following Noriega's downfall. Mr Jaime Ford, its general manager (and nephew of Panama's planning and economy minister), says his worst problem was battling the endemic corruption.

However, he is very optimistic about the future of the Free Zone, the second-biggest duty free trading port in the world after Hong Kong. In 1990 it enjoyed a record business year: $5.8bn of goods passed through the Free Zone, $2.7bn in imports and $3.1bn in re-exports, a 23 per cent jump above trading in 1989. The traders have an average profit margin of around 12 per cent.

Foreign businessmen in Panama estimate that contraband still accounts for about 30 per cent of the Free Zone's business. Mr Ford shrugs his shoulders and says that all goods leave Colón with proper export permits. If ships decide to switch destinations in mid-route and unload their goods in a sleepy Colombian port, that is not Panama's problem.

A quick look at the export destinations for the Free Zone's exports confirms this. Last year, $195m worth of goods officially left for the island of Aruba. It is doubtful whether they ever got there. Colombia is the main outlet for smuggled goods, as cocaine barons find this a convenient way to launder their drug money.

Besides smuggling, the secret of Colón's success as a free port lies in its strategic location at the Caribbean outlet of the Panama Canal. Exporting companies from the Far East use the Colón Free Zone as a distribution point for their Latin American markets, and so, increasingly, do European companies.

The Soviet car maker Lada, which is making great inroads in the Brazilian, Argentine and Chilean markets, has its central warehouse for Latin America in the Colón Free Zone. Sony and Cannon are building two warehouses covering an area of 20 hectares.

Space has become so tight in the 60-hectare Free Zone and adjoining former US airbase, France Field, that there are now plans to open up a new 114-hectare site called Coco Solo for the construction of more warehouses and assembly and manufacturing plants.

More than 1,400 companies now trade, or are represented, in the Free Zone. Clothes, sportswear and shoes make up the bulk of trading, but goods such as personal computers, videos, TV sets and hi-fi equipment are increasingly in demand.

The Free Zone, separated from the town of Colón by high walls and barbed wire, emerged relatively unscathed from the US invasion because heavily-armed merchants organised round-the-clock vigils to defend their international emporium. As a result, they were able to avoid the widespread looting that swept Panama City.

The contrast between the glossy shopfronts inside the walled Free Zone and the town of Colón outside could not be starker. The second-biggest town in Panama (it has a population of 68,000) is little more than a sprawling slum. It has the highest unemployment rate (over 30 per cent) and worst crime rate in the country. Even 12-year-old boys carry guns.

The Free Zone is Colón's biggest employer, about 10,000 people work there, but little of its wealth has permeated beyond its walls. The companies inside pay no municipal or local taxes. The Endara government decided last year that a small tax would be levied on goods that enter into Panama from the Free Zone, and that the monies would be used to improve Colón's housing and sanitation. To date the town has seen little evidence of improvements.

## US ASSISTANCE

# An unequal partnership

IF democracy takes root in Panama, it will be as much a US creation as the Noriega regime that preceeded it. Washington appears to have decided that the best defence for the Canal, once its 10,000-strong military force leaves the country at the turn of the century, is a stable Panama with strong democratic institutions and a healthy economy.

This represents a U-turn in US policy. Ambassador Deane Hinton says that, in retrospect, having Gen Noriega on the payroll of various US government agencies and building up the dreaded Panamanian Defence Forces "was not such a good idea". But such thoughts imply no change in Washington's attitude towards Panama ever since it fanned its independence from Colombia back in 1903 in order to build and control the Canal.

There is virtually no aspect of Panamanian government that the Americans are not directly involved in. The US invasion that ousted Gen Noriega provoked surprisingly little anti-US sentiment. Mr Guillermo Endara was hastily sworn in as Panama's president on a US airforce base and his government was showered with $460m in US aid, making Panama the biggest recipient of US aid in Latin America.

US officials say this was a one-shot deal, to jump-start the country's battered economy. However, the sum is so huge, representing one and a half times the government's 1991 investment budget, that President Endara's administration has barely begun to spend it.

The US also plays a central role in shaping the new democratic institutions. The US Department of Justice is helping retrain soldiers of the disbanded Defence Forces as an apolitical police force. Some 12,000 soldiers are being retrained. A a new police academy has been opened.

The slow and inefficient judiciary is being trained in case-load management, public administration officials are taking US courses in finance and tax affairs and US advisers are helping to draw up a privatisation programme.

US officials also report "first class cooperation" from Panamanians in the fight against drug trafficking. That is only to be expected, since the Americans have built up an anti-narcotics squad almost from scratch in the past year. Panama continues to be used as a drug trans-shipment point and centre for money laundering, but drug seizures are rising. At times, Panama appears to be little more than a US laboratory for experiments in "nation building". The relationship between both countries is a delicate one, with Washington calling all the shots, while appearing to defer to Panamanian wishes.

Neither country has yet fully come to grips with the implications of the 1979 Canal Treaty, which foresees the pullout of US military bases and the devolution of the Canal on December 31, 1999 to the Panamanians.

But ambassador Hinton says it is time to stop treating "The Big Ditch" as a political football and begin preparing for a smooth and orderly handover.

At the US Southern Command, army commander Gen Hartzog says the headquarters of the US military operations in Central and South America will be redeployed with no loss of efficiency. However, he believes the Panamanians have not taken realised the economic impact of the withdrawal of US bases. The US military spends about $200m a year in the purchase of local goods and services and in the salaries of Panamanian employees.

**Lesley Crawford**

# WORLD STOCK MARKETS

## CANADA

TORONTO

4:00 pm prices February 15

## INDICES

### NEW YORK

| DOW JONES | Feb. 15 | Feb. 14 | Feb. 13 | Feb. 12 | 1990-91 HIGH | 1990-91 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| ♦Industrials | 2934.65 | 2877.23 | 2909.16 | 2874.75 | 2999.75 (16/7/90) | 2365.10 (11/10/90) | 2999.75 (16/7/90) | 41.22 (2/7/32) |
| Home Bonds | 94.86 | 94.65 | 94.60 | 94.54 | 94.86 (15/2/91) | 88.44 (24/9/90) | 95.51 (9/2/87) | 54.99 (1/10/81) |
| Transport | 1119.18 | 1097.85 | 1112.83 | 1111.42 | 1212.77 (6/6/90) | 821.93 (17/10/90) | 1532.01 (5/9/89) | 12.32 (8/7/32) |
| Utilities | 215.48 | 214.79 | 217.05 | 217.18 | 236.23 (2/1/90) | 190.96 (24/8/90) | 236.23 (2/1/90) | 10.50 (8/4/32) |

♦Day's High 2947.28 (2942.08) Low 2868.07 (2852.48)

| STANDARD AND POOR'S | Feb. 15 | Feb. 14 | Feb. 13 | Feb. 12 | 1990-91 HIGH | 1990-91 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| Composite ‡ | 369.06 | 364.22 | 369.01 | 365.50 | 369.06 (15/2/91) | 295.46 (11/10/90) | 369.06 (15/2/91) | 4.40 (1/6/32) |
| Industrials | 435.43 | 429.49 | 434.97 | 430.76 | 437.37 (16/7/90) | 346.86 (11/10/90) | 437.37 (16/7/90) | 3.62 (21/6/32) |
| Financial | 28.68 | 28.22 | 28.80 | 28.50 | 31.87 (3/1/90) | 18.80 (29/10/90) | 35.24 (9/10/89) | 8.64 (1/10/74) |
| NYSE Composite | 201.29 | 198.92 | 201.18 | 199.43 | 201.29 (15/2/91) | 162.20 (11/10/90) | 201.29 (15/2/91) | 4.46 (25/4/42) |
| Amex Mkt. Value | 342.73 | 340.80 | 342.94 | 340.65 | 382.45 (5/1/90) | 288.07 (30/10/90) | 397.03 (10/10/89) | 29.31 (9/12/72) |
| NASDAQ Composite | 448.71 | 444.31 | 447.97 | 443.98 | 469.60 (16/7/90) | 325.44 (16/10/90) | 485.73 (9/10/89) | 54.87 (31/10/72) |

| | Feb. 8 | Feb. 1 | Jan.25 | year ago (approx.) |
|---|---|---|---|---|
| Dow Industrial Div. Yield | 3.57 | 3.70 | 3.88 | 4.09 |

| | Feb. 13 | Feb. 6 | Jan.30 | year ago (approx.) |
|---|---|---|---|---|
| S & P Industrial div. yield | 2.91 | 3.01 | 3.20 | 3.09 |
| S & P Indl. P/E ratio | 17.89 | 17.39 | 16.58 | 14.23 |

### NEW YORK ACTIVE STOCKS

| Friday | Stocks traded | Closing price | Change on day |
|---|---|---|---|
| Philip Morris | 3,690,800 | 62 | + 1¼ |
| Boeing | 3,302,400 | 49 | + 1 |
| Gen. Electric | 3,191,200 | 69⅝ | + 2¼ |
| Pepsico | 2,907,000 | 32 | + ¼ |
| Wal-Mart | 2,860,000 | 37⅛ | + 1⅛ |
| IBM | 2,738,900 | 137⅞ | + 2⅞ |
| Exxon | 2,442,900 | 53⅞ | - ⅞ |
| AT & T | 2,400,100 | 34⅛ | + ½ |
| Am. Express | 2,338,500 | 26⅞ | + ⅛ |
| Nabisco RJ | 2,291,000 | 7⅛ | - ⅛ |

### TRADING ACTIVITY

| † Volume Millions | Feb. 15 | Feb. 14 | Feb. 13 |
|---|---|---|---|
| New York | 222.370 | 230.750 | 209.960 |
| Amex | 15.572 | 18.127 | 16.528 |
| NASDAQ | (u) | 191.673 | 176.578 |
| Issues Traded | (u) | 2,032 | 2,041 |
| Rises | (u) | 607 | 1,042 |
| Falls | (u) | 1,034 | 558 |
| Unchanged | (u) | 391 | 441 |
| New Highs | (u) | 152 | 129 |
| New Lows | (u) | 1 | 3 |

### CANADA

| TORONTO | Feb. 15 | Feb. 14 | Feb. 13 | Feb. 12 | 1990-91 HIGH | 1990-91 LOW |
|---|---|---|---|---|---|---|
| Metals & Minerals | 3177.95 | 3166.28 | 3203.39 | 3169.40 | 3453.05 (4/1/90) | 2486.60 (8/11/90) |
| Composite | 3506.55 | 3492.25 | 3519.24 | 3504.78 | 4009.47 (3/1/90) | 3009.91 (16/10/90) |
| MONTREAL Portfolio | 1867.39 | 1864.26 | 1882.70 | 1880.34 | 2060.90 (3/1/90) | 1607.24 (16/10/90) |

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

| | Feb. 15 | Feb. 14 | Feb. 13 | Feb. 12 | 1990-91 HIGH | 1990-91 LOW |
|---|---|---|---|---|---|---|
| **AUSTRALIA** | | | | | | |
| All Ordinaries (1/1/80) | 1376.6 | 1372.9 | 1378.1 | 1384.9 | 1713.7 (12/1/90) | 1204.5 (16/1/91) |
| All Mining (1/1/80) | 600.1 | 600.7 | 604.1 | 606.3 | 860.8 (5/1/90) | 561.6 (16/1/91) |
| **AUSTRIA** | | | | | | |
| Credit Aktien (30/12/84) | 479.83 | 459.07 | 451.40 | 449.89 | 703.29 (19/3/90) | 393.54 (16/1/91) |
| **BELGIUM** | | | | | | |
| Brussels SE (Cash Mkt) (1/1/80) | 5320.18 | 5252.18 | 5241.41 | 5258.46 | 6599.43 (12/1/90) | 4664.84 (16/1/91) |
| **DENMARK** | | | | | | |
| Copenhagen SE (3/1/83) | 335.95 | 329.27 | 327.83 | 330.18 | 388.29 (20/7/90) | 302.26 (8/1/91) |
| **FINLAND** | | | | | | |
| Unitas General (1975) | 378.4 | 372.9 | 370.8 | 366.9 | 677.3 (23/1/90) | 348.4 (9/1/91) |
| **FRANCE** | | | | | | |
| CAC General (31/12/82) | 440.34 | 437.99 | 432.67 | 437.59 | 564.62 (30/5/90) | 394.88 (15/1/91) |
| CAC 40 (31/12/87) | 1670.39 | 1652.68 | 1635.84 | 1626.24 | 2129.32 (20/4/90) | 1441.17 (14/1/91) |
| **GERMANY** | | | | | | |
| FAZ Aktien (31/12/58) | 638.99 | 637.51 | 632.21 | 627.56 | 832.32 (19/7/90) | 569.69 (28/9/90) |
| Commerzbank (1/12/53) | 1818.5 | 1812.9 | 1796.2 | 1781.6 | 2414.0 (3/4/90) | 1612.5 (15/1/91) |
| DAX (30/12/87) | 1531.19 | 1486.52 | 1489.41 | 1468.94 | 1968.55 (30/3/90) | 1322.68 (16/1/91) |
| **HONG KONG** | | | | | | |
| Hang Seng Bank (31/7/64) | (c) | (c) | 3412.66 | 3395.00 | 3559.89 (23/7/90) | 2738.24 (1/2/90) |
| **IRELAND** | | | | | | |
| ISEQ Overall (4/1/88) | 1278.42 | 1268.07 | 1260.39 | 1237.93 | 1893.10 (22/1/90) | 1114.86 (25/1/91) |
| **ITALY** | | | | | | |
| Banca Com. Ital. (1972) | 553.50 | 547.43 | 537.23 | 530.66 | 763.52 (14/6/90) | 486.26 (29/1/91) |
| **JAPAN** | | | | | | |
| Nikkei (16/5/49) | 25343.74 | 25356.37 | 25139.47 | 24935.01 | 38712.88 (4/1/90) | 20221.86 (1/10/90) |
| Tokyo SE (Topix) (4/1/68) | 1896.04 | 1898.47 | 1879.48 | 1865.66 | 2867.70 (4/1/90) | 1523.43 (1/10/90) |
| 2nd Section (4/1/68) | 2852.30 | 2837.41 | 2801.43 | 2765.12 | 4477.16 (16/7/90) | 2499.15 (29/1/91) |
| **MALAYSIA** | | | | | | |
| KLSE Composite (4/4/86) | (c) | (c) | 527.60 | 526.01 | 632.22 (1/8/90) | 459.08 (28/9/90) |
| **NETHERLANDS** | | | | | | |
| CBS Ttl Rtn.Gen.(End 1983) | 242.9 | 240.6 | 239.0 | 238.5 | 271.9 (20/7/90) | 221.4 (16/1/91) |
| CBS All Shr (End 1983) | 177.6 | 175.9 | 174.8 | 174.5 | 206.3 (3/1/90) | 162.3 (16/1/91) |
| **NORWAY** | | | | | | |
| Oslo SE (Ind) (2/1/83) | 676.74 | 680.58 | 673.71 | 669.23 | 915.13 (2/8/90) | 610.45 (21/1/91) |
| **PHILIPPINES** | | | | | | |
| Manila Comp (2/1/85) | 874.71 | 862.48 | 866.01 | 887.41 | 1160.70 (21/3/90) | 514.20 (5/10/90) |
| **SINGAPORE** | | | | | | |
| SES-All-Singapore (2/4/75) | (c) | 365.24 | 359.57 | 357.18 | 446.87 (16/7/90) | 301.45 (11/10/90) |
| **SOUTH AFRICA** | | | | | | |
| JSE Gold (28/9/78) | 1036.0& | 1044.0 | 1036.0 | 1026.0 | 2230.0 (16/1/90) | 976.0 (6/2/91) |
| JSE Industrial (28/9/78) | 3178.0& | 3144.0 | 3114.0 | 3101.0 | 3211.0 (6/2/90) | 2640.0 (1/10/90) |
| **SOUTH KOREA**** | | | | | | |
| Korea Comp Ex. (4/1/80) | (c) | (c) | 644.91 | 648.11 | 928.82 (4/1/90) | 566.27 (17/9/90) |
| **SPAIN** | | | | | | |
| Madrid SE (30/12/85) | 254.08 | 247.16 | 245.64 | 244.73 | 309.74 (16/7/90) | 209.37 (28/9/90) |
| **SWEDEN** | | | | | | |
| Affarsvariden Gen. (1/2/37) | 985.9 | 964.7 | 965.5 | 971.0 | 1329.9 (5/7/90) | 808.4 (8/1/91) |
| **SWITZERLAND** | | | | | | |
| Swiss Bank Ind. (31/12/58) | 676.0 | 668.7 | 666.4 | 656.6 | 845.5 (13/7/90) | 590.4 (14/1/91) |
| SBC General (1/4/87) | 574.2 | 567.9 | 566.8 | 560.1 | 698.2 (13/7/90) | 487.1 (14/1/91) |
| **TAIWAN**** | | | | | | |
| Weighted Price (30/6/66) | (c) | (c) | (c) | (c) | 12495.34 (10/2/90) | 2560.47 (1/10/90) |
| **THAILAND** | | | | | | |
| Bangkok SET (30/4/75) | 774.52 | 766.24 | 753.66 | 760.93 | 1143.78 (25/7/90) | 544.30 (30/11/90) |
| **WORLD** | | | | | | |
| M.S. Capital Intl.(1/1/70) ($) | 516.1° | 516.0 | 516.6 | 514.5 | 571.0 (4/1/90) | 423.1 (28/9/90) |

**Saturday February 9. Taiwan Weighted Price: 4540.92. Korea Comp Ex. 631.27.
& Subject to official recalculation. °Calculated at 15.00 GMT
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

### TOKYO - Most Active Stocks

Friday, 15 February, 1991

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| M'bishi Mtrls | 22.3m | 785 | +14 |
| S'tomo Heavy | 22.2m | 740 | +10 |
| Japan Stl Wks | 20.9m | 690 | +20 |
| Hitachi | 20.2m | 1,270 | +40 |
| Toshiba | 18.2m | 828 | +13 |
| M'bishi Elec | 15.5m | 754 | +15 |
| Sato Kogyo | 12.1m | 1,670 | +80 |
| Nippon Steel | 12.0m | 485 | -8 |
| Chiyoda Corp | 12.0m | 2,670 | +90 |
| Kurabo Inds | 8.3m | 1,570 | +90 |

هذا من الأصل



# FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

## AUTHORISED UNIT TRUSTS

## Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

**INITIAL CHARGE:** Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

**OFFER PRICE:** Also called issue price. The price at which units are bought by investors.

**BID PRICE:** Also called redemption price. The price at which units are sold back by investors.

**CANCELLATION PRICE:** The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

**TIME:** The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♠) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

**HISTORIC PRICING:** The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

**FORWARD PRICING:** The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

**SCHEME PARTICULARS AND REPORTS:** The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

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TSB Unit Trusts (1200)H

Target Trust Mngrs Ltd (1600)F

Templeton Unit Trust Managers Ltd (1200)F

Thornhill Unit Trust Managers Ltd (1200)F

Thornton Unit Managers Ltd (1000)F

Three Counties Asset Mngmt Ltd (1430)F

Timberlake Trust Mngrs Ltd (0900)F

Touche Remnant Unit Tst Mgmt Ltd (1600)F

Trades Union Unit Tst Mngrs (1200)H

Triton Fd Mngrs. Ltd. (1000)H

United Charities Unit Trusts (1000)H

Wardley Unit Tst Mngrs Ltd (1200)F

Waverley Unit Tst Mngmt Ltd

Wessex Asset Management (1330)F

Whittingdale Unit Tst Mngmt Ltd

Willis Financial Services Ltd (0900)F

Woolwich Unit Trust Managers Ltd (1700)H

Wright Seligman Fund Mngrs Ltd (1700)F

The Yorkshire Unit Tst Mngrs Ltd (1100)F

## OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

James Capel Fund Managers Ltd

Cent. Bd. of Fin. of Church of England

Charinco/Charishare

CAFINVEST-Charities Aid Foundation

COIF-Charities Official Inv Fdss

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Fleming Asset Mngmt Ltd

Funds in Court

Henderson Unit Trust Management Ltd

Lazard Brothers & Co. Ltd

Lazard Investors Ltd

Local Authorities Mutual Invest. Tst.

M & G Securities Ltd

MIM Ltd

Morgan Grenfell Unit Trust Managers Ltd

Murray Johnstone UT Mngmt

Phillips & Drew Fund Management Ltd

NM Rothschild Asset Management Ltd

J. Rothschild Fund Managers Ltd

Stewart Ivory & Co Ltd

Thornton Unit Managers Ltd

Touche Remnant Unit Tst Mgt Ltd

## INSURANCES

AA Friendly Society

Abbey Life Assurance Co Ltd

Acuma Life Assurance Co Ltd

Aetna Life Insurance Co Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

Allied Dunbar Assurance Plc - Contd.

Ambassador Life Assce. Co Ltd

American Life Insurance Co UK

Avon Insurance Plc

Barclays Life Assur. Co Ltd

Black Horse Life Ass. Co Ltd

Britannia Life Ltd

CCL Assurance Ltd

Canada Life Group

Cannon Assurance Ltd

Century Life Plc

Citibank Life

City of Westminster Assurance Co

Clerical Medical/Fidelity Investments

Clerical Medical Investments Group

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Combined Life Assurance Co Ltd

Commercial Union Group

Cornhill Insurance PLC

Crown Financial Management Ltd

Crusader Insurance Plc

Eagle Star Life Assurance Co Ltd

Eagle Star Insur./Midland Assur.

Economic Insurance Company Ltd

Equitable Life Assurance Society

Equity & Law

Family Assurance Society

Friends Provident

GT Unit Managers Ltd

General Accident (z)

General Portfolio Life Insce Plc

Assicurazioni GENERALI SpA

Gresham Unit Assurance Ltd

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Guardian Royal Exchange - Contd.

Hearts of Oak Insurance Group

Henderson Administration

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General (Unit Assur) Ltd

Legal & General (Unit Pensions) Ltd

Liberty Life Assurance Co Ltd

The Life Association of Scotland

Lifetime Assurance Co Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Life and M & G Pensions

MGM Assurance

Manchester Unity Assurance

ManuLife Group PLC

Merchant Investors Assurance Co Ltd

Merchant Investors Assurance Co Ltd - Contd.

Mercury Life Assurance Co Ltd

Midland Life Limited

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

NM Life Assurance Ltd

Continued on next page

# FT MANAGED FUNDS SERVICE

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## OFFSHORE INSURANCES

## MANAGEMENT SERVICES

## OFFSHORE AND OVERSEAS

### BERMUDA (SIB RECOGNISED)

### CANADA (SIB RECOGNISED)

### GUERNSEY (SIB RECOGNISED)

### GUERNSEY (REGULATED)

# FT MANAGED FUNDS SERVICE

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Nikko Capital Mngt (Europe) Ltd

Sandi International (Guernsey) Ltd

## IRELAND (SIB RECOGNISED)

## IRELAND (REGULATED)(**)

## ISLE OF MAN (SIB RECOGNISED)

## ISLE OF MAN (REGULATED)(**)

## JERSEY (SIB RECOGNISED)

Hill Samuel Fund Mgrs (Jsy) Ltd (1060)F

## JERSEY (REGULATED)(**)

Scimitar Worldwide Money Fund Ltd

Scimitar Worldwide Selection Fd Ltd

## LUXEMBOURG (SIB RECOGNISED)

Gartmore Luxembourg SA (u)

Henderson Management SA (u)

## LUXEMBOURG (REGULATED)(**)

Cortexa International (u)

Credit Commercial de France

Credit Suisse

Unibank SA, Frontrunner I (u)

Unico Financial Services SA Lux

Viking Fund-SICAV

## SWITZERLAND (SIB RECOGNISED)

## OTHER OFFSHORE FUNDS

Gala Currency Funds

Gartmore Investment Ltd

North Star Fund Managers (Cayman) Ltd

MANAGED FUNDS NOTES

# CURRENCIES, MONEY AND CAPITAL MARKETS

## MONEY MARKETS

# Easy with hindsight

THE TIMING of last week's Bank of England signal to cut bank-base rates came as something of a surprise, but with hindsight there were enough indications that a rate reduction was in the offing.

**UK clearing bank base lending rate 13.5 per cent from February 13, 1991**

While official pronouncements encouraged the view that rates would only be cut when inflation was on an established downward trend, and it was rumoured that the Bank of England had told the clearing banks that inflation was still too high, action by the authorities in the money market took a different line.

This suggests that a decision to cut rates could have been taken during the first week in February. Until then the Bank of England had tended to under-help the market, keeping the short end tight and discouraging hopes of rate cuts, but on February 7 the authorities took out an entire day-to-day shortage of over £2bn. On the following day a shortage of £1.45bn was absorbed without any signal of official displeasure, despite the fact that rates on the cash market and prices on the futures exchange were discounting base rate cuts of ½ per cent and 1 per cent respectively.

On the first two trading days of last week further very large shortages of around £1bn were fully absorbed. This was followed on Wednesday by the Bank of England's offer to buy bills ¼ point below its existing dealing rates and also to lend at 13½ per cent. The signal had been given for an immediate cut in base rates.

Now the downward trend has started, market pressure is likely to increase for further cuts. Three-month interbank nudged 13 per cent at one time on Friday. Short sterling futures are looking for base rates no higher than 13 per cent by delivery of the March contract and for base rates of 11½ per cent by June.

## £ IN NEW YORK

| Feb 15 | Close | Previous Close |
|---|---|---|
| £ Spot | 1.9665-1.9675 | 1.9805-1.9815 |
| 1 month | 1.06-1.05pm | 1.07-1.06pm |
| 3 months | 3.09-3.07pm | 3.11-3.09pm |
| 12 months | 9.27-9.19pm | 9.35-9.25pm |

Forward premiums and discounts apply to the US dollar

## STERLING INDEX

| | Feb.15 | Previous |
|---|---|---|
| 8.30 am | 94.4 | 94.3 |
| 9.00 am | 94.4 | 94.3 |
| 10.00 am | 94.4 | 94.3 |
| 11.00 am | 94.4 | 94.3 |
| Noon | 94.3 | 94.4 |
| 1.00 pm | 94.4 | 94.3 |
| 2.00 pm | 94.4 | 94.4 |
| 3.00 pm | 94.4 | 94.4 |
| 4.00 pm | 94.4 | 94.4 |

## CURRENCY MOVEMENTS

| Feb 15 | Bank of England Index | Morgan** Guaranty Changes % |
|---|---|---|
| Sterling | 94.4 | -18.1 |
| U.S Dollar | 60.1 | -19.3 |
| Canadian Dollar | 101.7 | +0.2 |
| Austrian Schilling | 110.7 | +12.6 |
| Belgian Franc | 112.9 | -1.1 |
| Danish Krone | 111.2 | +5.4 |
| D-Mark | 120.7 | +26.6 |
| Swiss Franc | 114.4 | +22.9 |
| Dutch Guilder | 116.0 | +17.3 |
| French Franc | 104.8 | -11.9 |
| Lira | 100.3 | -19.0 |
| Yen | 133.3 | +68.3 |

Morgan Guaranty changes. average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Feb.14

## CURRENCY RATES

| Feb 15 | Bank rate % | Special * Drawing Rights | European † Currency Unit |
|---|---|---|---|
| Sterling | – | 0.730345 | 0.703784 |
| U.S Dollar | 6.00 | 1.44864 | 1.38892 |
| Canadian $ | 10.73 | 1.67144 | 1.60267 |
| Austrian Sch | 7 | 14.9065 | 14.4114 |
| Belgian Franc | 10.50 | 43.6620 | 42.1606 |
| Danish Krone | 9½ | 8.15946 | 7.87934 |
| D-Mark | 6.50 | 2.12052 | 2.04838 |
| Dutch Guilder | 7.75 | 2.38968 | 2.30755 |
| French Franc | 10¼ | 7.22582 | 6.97654 |
| Italian Lira | 12½ | 1595.50 | 1538.92 |
| Japanese Yen | 6 | 187.889 | 180.657 |
| Norway Krone | 8 | 8.30505 | 8.01059 |
| Spanish Peseta | – | 132.507 | 128.044 |
| Swedish Krona | 11 | 7.96173 | 7.66822 |
| Swiss Franc | 6.00 | 1.81587 | 1.75629 |
| Greek Drach | 19 | N/A | 219.366 |
| Irish Punt | – | N/A | 0.769612 |

† European Commission Calculations.
* All SDR rates are for Feb.14

## OTHER CURRENCIES

| Feb 15 | £ | $ |
|---|---|---|
| Argentina | 19020.1 - 19128.4 | 9650.00 - 9700.00 |
| Australia | 2.5020 - 2.5040 | 1.2670 - 1.2680 |
| Brazil | 437.265 - 438.080 | 221.850 - 222.150 |
| Finland | 7.0615 - 7.0870 | 3.5800 - 3.5830 |
| Greece | 308.45 - 313.40 | 155.85 - 158.35 |
| Hong Kong | 15.3600 - 15.3790 | 7.7885 - 7.7905 |
| Iran | N/A | N/A |
| Korea(Sth) | 1425.00 - 1448.00 | 718.70 - 724.30 |
| Kuwait | N/A | N/A |
| Luxembourg | 59.75 - 59.85 | 30.30 - 30.40 |
| Malaysia | 5.2970 - 5.3070 | 2.6845 - 2.6865 |
| Mexico | 5840.05 - 5845.00 | 2963.00 - 2964.00 |
| N.Zealand | 3.2550 - 3.2600 | 1.6490 - 1.6515 |
| Saudi Ar | 7.4120 - 7.4535 | 3.7490 - 3.7510 |
| Singapore | 3.3790 - 3.3875 | 1.7095 - 1.7115 |
| S.Af (Cm) | 4.9965 - 5.0100 | 2.5340 - 2.5370 |
| S.Af (Fn) | 6.4020 - 6.5085 | 3.2465 - 3.3005 |
| Taiwan | 53.45 - 53.55 | 27.10 - 27.15 |
| U.A.E. | 7.2595 - 7.3005 | 3.6720 - 3.6740 |

* Selling rate

## CHICAGO

**U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%**

| | Close | High | Low | Prev. |
|---|---|---|---|---|
| Mar | 98-08 | 98-19 | 97-24 | 98-00 |
| Jun | 97-22 | 98-00 | 97-07 | 97-14 |
| Sep | 97-03 | 97-13 | 96-21 | 96-27 |
| Dec | 96-17 | 96-17 | 96-06 | 96-08 |
| Mar | 95-31 | - | - | 95-22 |
| Jun | 95-13 | 95-13 | 95-02 | 95-04 |
| Sep | 94-28 | - | - | 94-19 |

**JAPANESE YEN (IMM) Y12.5m $ per Y100**

| | Close | High | Low | Prev. |
|---|---|---|---|---|
| Mar | 0.7652 | 0.7692 | 0.7640 | 0.7703 |
| Jun | 0.7634 | 0.7673 | 0.7625 | 0.7685 |
| Sep | 0.7624 | 0.7630 | 0.7630 | 0.7675 |
| Dec | 0.7621 | - | - | 0.7675 |

**DEUTSCHE MARK (IMM)**

**U.S. TREASURY BILLS (IMM)**

**THREE-MONTH EURODOLLAR (IMM)**

**SWISS FRANC (IMM)**

**STANDARD & POORS 500 INDEX**

**PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)**

| Strike Price | Calls Feb | Calls Mar | Calls Apr | Calls Jun | Puts Feb | Puts Mar | Puts Apr | Puts Jun |
|---|---|---|---|---|---|---|---|---|
| 1.900 | 6.25 | 6.30 | 6.46 | 6.91 | - | 0.31 | 1.24 | 3.24 |
| 1.925 | 3.75 | 3.94 | 4.45 | 5.21 | - | 0.82 | 2.04 | 4.37 |
| 1.950 | 1.40 | 2.23 | 2.88 | 3.87 | - | 1.72 | 3.08 | 5.75 |
| 1.975 | - | 1.17 | 1.87 | 2.80 | 0.95 | 3.07 | 4.59 | 7.32 |
| 2.000 | - | 0.50 | 1.11 | 2.08 | 3.40 | 4.94 | 6.38 | 9.07 |
| 2.025 | - | 0.16 | 0.61 | 1.45 | 5.82 | 7.11 | 8.40 | 10.98 |
| 2.050 | - | 0.05 | 0.29 | 0.98 | 8.32 | 9.44 | 10.59 | 13.02 |

Previous day's open int: Calls 335,771 Puts 503,362 (All currencies)
Previous day's volume: Calls 24,868 Puts 41,706 (All currencies)

## POUND SPOT - FORWARD AGAINST THE POUND

| Feb 15 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| US | 1.9670 - 1.9815 | 1.9695 - 1.9705 | 1.07-1.05cpm | 6.46 | 3.10-3.07pm | 6.26 |
| Canada | 2.2705 - 2.2835 | 2.2740 - 2.2750 | 0.49-0.40cpm | 2.35 | 1.60-1.46pm | 2.69 |
| Netherlands | 3.2700 - 3.2800 | 3.2700 - 3.2800 | 1¼-1cpm | 4.12 | 3¼-3pm | 3.82 |
| Belgium | 59.60 - 60.05 | 59.75 - 59.85 | 19-16cpm | 3.51 | 54-48pm | 3.41 |
| Denmark | 11.1545 - 11.2105 | 11.1750 - 11.1850 | 3¼-2⅝orepm | 3.29 | 8¼-7⅝pm | 2.91 |
| Ireland | 1.0885 - 1.0990 | 1.0925 - 1.0935 | 0.29-0.22cpm | 2.80 | 0.71-0.53pm | 2.27 |
| Germany | 2.9035 - 2.9105 | 2.9050 - 2.9100 | 1⅛-⅞pfpm | 4.13 | 2⅝-2⅜pm | 3.87 |
| Portugal | 254.75 - 256.35 | 254.75 - 255.75 | 6-27cdis | -0.78 | 90-129dis | -1.72 |
| Spain | 181.10 - 182.30 | 181.20 - 181.50 | 14-19cdis | -1.09 | 49-62dis | -1.22 |
| Italy | 2176.35 - 2189.20 | 2184.25 - 2185.25 | 3-1lirepm | 1.1 | 5-3pm | 0.73 |
| Norway | 11.3370 - 11.3880 | 11.3575 - 11.3675 | 2¾-2¼orepm | 2.77 | 7-6¼pm | 2.33 |
| France | 9.8885 - 9.9175 | 9.9000 - 9.9100 | 3¼-2⅞cpm | 3.63 | 8⅞-8¼pm | 3.33 |
| Sweden | 10.8590 - 10.9095 | 10.8750 - 10.8850 | 1-¼orepm | 0.97 | 1⅞-1¼pm | 0.57 |
| Japan | 256.10 - 257.50 | 256.50 - 257.50 | 1⅛-1ypm | 4.96 | 3⅛-3pm | 4.96 |
| Austria | 20.40 - 20.50 | 20.41 - 20.44 | 7⅛-6grpm | 3.86 | 19½-17⅛pm | 3.61 |
| Switzerland | 2.4890 - 2.5000 | 2.4900 - 2.5000 | 1⅛-1cpm | 5.11 | 3¼-3pm | 5.01 |
| Ecu | 1.4130 - 1.4150 | 1.4135 - 1.4145 | 0.46-0.40cpm | 3.65 | 1.23-1.14pm | 3.35 |

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.57-5.52cpm. 12 Month 9.25-9.15pm

## DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

| Feb 15 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| UK† | 1.9670 - 1.9815 | 1.9695 - 1.9705 | 1.07-1.05cpm | 6.46 | 3.10-3.07pm | 6.26 |
| Ireland† | 1.7985 - 1.8135 | 1.8045 - 1.8055 | 0.64-0.59cpm | 4.09 | 1.93-1.83pm | 4.17 |
| Canada | 1.1515 - 1.1550 | 1.1540 - 1.1550 | 0.38-0.41cdis | -4.11 | 1.04-1.09dis | -3.69 |
| Netherlands | 1.6490 - 1.6685 | 1.6620 - 1.6630 | 0.31-0.35cdis | -2.38 | 0.99-1.04dis | -2.44 |
| Belgium | 30.15 - 30.45 | 30.30 - 30.40 | 6.50-8.00cdis | -2.87 | 20-24dis | -2.90 |
| Denmark | 5.6350 - 5.6850 | 5.6725 - 5.6775 | 1.45-1.65oredis | -3.28 | 4.65-5.25dis | -3.49 |
| Germany | 1.4620 - 1.4790 | 1.4755 - 1.4765 | 0.28-0.30pfdis | -2.36 | 0.89-0.92dis | -2.45 |
| Portugal | 129.50 - 129.80 | 129.55 - 129.65 | 73-83cdis | -7.22 | 250-270dis | -8.02 |
| Spain | 91.50 - 92.40 | 92.05 - 92.15 | 57-60cdis | -7.62 | 170-176dis | -7.51 |
| Italy | 1101.00 - 1111.25 | 1108.75 - 1109.25 | 4.50-5.00liredis | -5.14 | 14.80-15.80dis | -5.52 |
| Norway | 5.7300 - 5.7925 | 5.7650 - 5.7700 | 1.55-2.00oredis | -3.69 | 5.45-6.05dis | -3.99 |
| France | 4.9800 - 5.0450 | 5.0250 - 5.0300 | 1.15-1.20cdis | -2.8 | 3.72-3.82dis | -3.00 |
| Sweden | 5.4900 - 5.5385 | 5.5200 - 5.5250 | 2.33-2.63oredis | -5.39 | 7.65-8.20dis | -5.74 |
| Japan | 129.40 - 130.60 | 130.35 - 130.45 | 0.13-0.15ydis | -1.29 | 0.37-0.40dis | -1.18 |
| Austria | 10.3030 - 10.4050 | 10.3725 - 10.3775 | 2.00-2.40grodis | -2.54 | 6.10-7.20dis | -2.56 |
| Switzerland | 1.2540 - 1.2720 | 1.2665 - 1.2675 | 0.13-0.16cdis | -1.37 | 0.39-0.44dis | -1.31 |
| Ecu | 1.3890 - 1.4025 | 1.3935 - 1.3945 | 0.35-0.32cpm | 2.88 | 1.07-1.01pm | 2.98 |

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

## EXCHANGE CROSS RATES

| Feb.15 | £ | $ | DM | Yen | F Fr. | S Fr. | H Fl. | Lira | C $ | B Fr. |
|---|---|---|---|---|---|---|---|---|---|---|
| £ | 1 | 1.970 | 2.908 | 257.0 | 9.905 | 2.495 | 3.275 | 2185 | 2.275 | 59.80 |
| $ | 0.508 | 1 | 1.476 | 130.5 | 5.028 | 1.266 | 1.662 | 1109 | 1.155 | 30.36 |
| DM | 0.344 | 0.677 | 1 | 88.38 | 3.406 | 0.858 | 1.126 | 751.4 | 0.782 | 20.56 |
| YEN | 3.891 | 7.665 | 11.32 | 1000. | 38.54 | 9.708 | 12.74 | 8502 | 8.852 | 232.7 |
| F Fr. | 1.010 | 1.989 | 2.936 | 259.5 | 10. | 2.519 | 3.306 | 2206 | 2.297 | 60.37 |
| S Fr. | 0.401 | 0.790 | 1.166 | 103.0 | 3.970 | 1 | 1.313 | 875.8 | 0.912 | 23.97 |
| H Fl | 0.305 | 0.602 | 0.888 | 78.47 | 3.024 | 0.762 | 1 | 667.2 | 0.695 | 18.26 |
| Lira | 0.458 | 0.902 | 1.331 | 117.6 | 4.533 | 1.142 | 1.499 | 1000 | 1.041 | 27.37 |
| C $ | 0.440 | 0.866 | 1.278 | 113.0 | 4.354 | 1.097 | 1.440 | 960.4 | 1 | 26.29 |
| B Fr. | 1.672 | 3.294 | 4.863 | 429.8 | 16.56 | 4.172 | 5.477 | 3654 | 3.804 | 100 |

Yen per 1,000: French Fr. per 10: Lira per 1,000. Belgian Fr. per 100.

## EURO-CURRENCY INTEREST RATES

| Feb 15 | Short term | 7 Days notice | One Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| Sterling | 13 11/16 - 13⅝ | 13⅝ - 13 9/16 | 13 9/16 - 13½ | 13⅛ - 13 1/16 | 12 9/16 - 12½ | 12 1/16 - 12 |
| US Dollar | 6⅝ - 6½ | 6½ - 6⅜ | 6½ - 6⅜ | 6⅝ - 6½ | 6⅝ - 6½ | 6 13/16 - 6 11/16 |
| Can. Dollar | 11⅜ - 11⅛ | 11⅛ - 10⅞ | 10 13/16 - 10 11/16 | 10 7/16 - 10 5/16 | 9 11/16 - 9 9/16 | 9½ - 9¼ |
| Dutch Guilder | 9⅛ - 8⅞ | 9⅛ - 8⅞ | 9 1/16 - 8 15/16 | 9⅛ - 9 | 9 5/16 - 9 3/16 | 9¼ - 9⅛ |
| Swiss Franc | 7⅞ - 7⅝ | 7⅞ - 7⅝ | 7 13/16 - 7 11/16 | 7 15/16 - 7 13/16 | 7⅞ - 7¾ | 7⅝ - 7½ |
| D-Mark | 8⅞ - 8¾ | 8⅞ - 8¾ | 8 15/16 - 8 13/16 | 9 - 8⅞ | 9 1/16 - 8 15/16 | 9 1/16 - 8 15/16 |
| French Franc | 9⅝ - 9⅜ | 9½ - 9⅜ | 9⅝ - 9½ | 9 11/16 - 9 9/16 | 9¾ - 9⅝ | 9¾ - 9⅝ |
| Italian Lira | 13 - 11 | 12¾ - 12¼ | 12 3/16 - 11 13/16 | 12⅜ - 11⅞ | 12⅛ - 12 | 12⅜ - 12 1/16 |
| Belgian Franc | 9½ - 9¼ | 9 9/16 - 9 7/16 | 9 9/16 - 9 7/16 | 9 9/16 - 9 7/16 | 9⅝ - 9½ | 9⅝ - 9½ |
| Yen | 8 1/16 - 7 13/16 | 8 - 7⅞ | 8 - 7⅞ | 7 13/16 - 7 11/16 | 7⅝ - 7½ | 7 5/16 - 7 3/16 |
| Danish Krone | 10 - 9¾ | 10 - 9¾ | 10¼ - 10⅛ | 10 7/16 - 10 5/16 | 10⅝ - 10½ | 10⅝ - 10½ |
| Asian $Sing | 6 9/16 - 6 7/16 | 6 9/16 - 6 7/16 | 6 9/16 - 6 7/16 | 6 11/16 - 6 9/16 | 6 11/16 - 6 9/16 | 6 13/16 - 6 11/16 |

Long term Eurodollars: two years 7⅛-7¼ per cent; three years 7¼-7⅜ per cent; four years 8-7⅞ per cent; five years 8 3/16-8 1/16 per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

## FT LONDON INTERBANK FIXING

| (11.00 a.m. Feb.15) 3 months US dollars | | 6 months US Dollars | |
|---|---|---|---|
| bid 6½ | offer 6⅝ | bid 6½ | offer 6⅝ |

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

## MONEY RATES

### NEW YORK

(4pm)

| | |
|---|---|
| Prime rate | 9 |
| Broker loan rate | 8½ |
| Fed. funds | 5½ |
| Fed.funds at intervention | 6 1/16 |

Treasury Bills and Bonds

| | | | |
|---|---|---|---|
| One month | 6.09 | Three year | 7.03 |
| Two month | 5.96 | Four year | 7.22 |
| Three month | 6.07 | Five year | 7.39 |
| Six month | 6.16 | Seven year | 7.66 |
| One year | 6.23 | 10-year | 7.79 |
| Two year | 6.82 | 30-year | 7.98 |

| Feb.15 | Overnight | One Month | Two Months | Three Months | Six Months | Lombard Intervention |
|---|---|---|---|---|---|---|
| Frankfurt | 8.65-8.75 | 8.70-8.85 | 8.75-8.90 | 8.80-8.95 | 8.85-9.00 | 9.00 |
| Paris | 9 3/16-9 5/16 | 9 7/16-9 9/16 | 9 7/16-9 9/16 | 9½-9⅝ | 9⅝-9 11/16 | 9.25 |
| Zurich | 7⅜-7⅝ | 7¾-8 | - | 7¾-8 | - | - |
| Amsterdam | 8.93-9.06 | 9.00-9.05 | - | 8.98-9.08 | - | - |
| Tokyo | 8 1/16-8⅛ | 7 15/16-8 | - | 7 11/16-7¾ | - | - |
| Milan | 12½-13 | 13¾-14 | - | 13¼-13⅜ | - | - |
| Brussels | - | 9½-9⅝ | - | 9 7/16-9 9/16 | - | - |
| Dublin | 10⅝-10⅞ | 10 15/16-11 1/16 | 10 15/16-11 1/16 | 10 15/16-11 1/16 | 10 15/16-11 1/16 | - |

## LONDON MONEY RATES

| Feb 15 | Overnight | 7 days notice | One Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| Interbank Offer | 14⅛ | 13¾ | 13 11/16 | 13¼ | 12⅝ | 12⅛ |
| Interbank Bid | 13 | 13½ | 13 9/16 | 13⅛ | 12½ | 12 |
| Sterling CDs | – | – | 13 9/16 | 13 3/16 | 12½ | 11 15/16 |
| Local Authority Deps. | 13 11/16 | 13 11/16 | 13⅝ | 13 3/16 | 12½ | 12 |
| Local Authority Bonds | – | – | – | – | – | – |
| Discount Mkt Deps | 13¾ | 13½ | 13⅜ | 12¼ | – | – |
| Company Deposits | – | – | 13 11/16 | 13⅛ | 12⅝ | 12 1/16 |
| Finance House Deposits | – | – | 13⅝ | 13⅛ | 12 9/16 | 12 |
| Treasury Bills (Buy) | – | – | 13⅜ | 12¼ | 11⅝ | – |
| Bank Bills (Buy) | – | – | 13 15/32 | 12 13/32 | 11 27/32 | – |
| Fine Trade Bills (Buy) | – | – | 13 25/32 | 13 3/32 | 12 11/32 | – |
| Dollar CDs | – | – | 6.50 | 6.55 | 6.55 | 6.75 |
| SDR Linked Dep. Offer | – | – | 8 7/16 | 8 5/16 | 8½ | 8½ |
| SDR Linked Dep. Bid | – | – | 8 5/16 | 8 3/16 | 8⅜ | 8⅜ |
| ECU Linked Dep. Offer | – | – | 9¾ | 9 11/16 | 9⅞ | 9 13/16 |
| ECU Linked Dep. Bid | – | – | 9⅝ | 9 9/16 | 9¾ | 9 11/16 |

Treasury Bills (sell): one-month 13 per cent; three months 12⅛ per cent; six months 11 9/16 per cent; Bank Bills (sell): one-month 13 3/32 per cent; three months 12 5/16 per cent; Treasury Bills; Average tender rate of discount 12.1298 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day January 31, 1991. Agreed rates for period Feb 26, 1991 to Mar 25, 1991, Scheme I: 15.10 p.c., Schemes II & III: 15.26 p.c. Reference rate for period Jan 1, 1991 to Jan 31, 1991, Scheme IV&V: 14.012 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 14 from February 1, 1991: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 10½ per cent; one-three months 12 per cent; three-six months 12 per cent; six-nine months 12 per cent; nine-twelve months 11½ per cent; Under £100,000 10½ per cent from Oct 8, 1989, Deposits withdrawn for cash 5 per cent.

## LONDON RECENT ISSUES

### EQUITIES

### FIXED INTEREST STOCKS

### RIGHTS OFFERS

Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

## BANK OF ENGLAND TREASURY BILL TENDER

| | Feb 15 | Feb.8 | | Feb 15 | Feb.8 |
|---|---|---|---|---|---|
| Bills on offer | £350m | £250m | Top accepted rate of discount | 12.1332% | N/A |
| Total of applications | £990m | £858m | Average rate of discount | 12.1298% | 12.5247% |
| Total allocated | £350m | N/A | Average yield | 12.5081% | N/A |
| Minimum accepted bid | £96.975 | £96.870 | Amount on offer at next tender | £350m | £350m |
| Allotment at minimum level | 86% | N/A | Minimum accepted bid 182 days | £94.295 | £94.100 |

## WEEKLY CHANGE IN WORLD INTEREST RATES

| | Feb.15 | change | | Feb.15 | change |
|---|---|---|---|---|---|
| **LONDON** | | | **NEW YORK** | | |
| Base rates | 13½ | -½ | Prime rates | 9 | Unch'd |
| 7 day Interbank | 13¾ | -⅝ | Federal Funds | 6 7/16 | +⅛ |
| 3-month Interbank | 13¼ | -⅜ | 3 Mth. Treasury Bills | 6.07 | -0.04 |
| Treasury Bill Tender | 12.1298 | -0.3949 | 6 Mth. Treasury Bills | 6.16 | Unch'd |
| Band 1 Bills | - | - | 3 Mth. CD | 6.55 | - |
| Band 2 Bills | - | - | **FRANKFURT** | | |
| Band 3 Bills | - | - | Lombard | 9.00 | Unch'd |
| Band 4 Bills | - | - | One mth. Interbank | 8.775 | Unch'd |
| 3 Mth. Treasury Bill | 12⅛ | -⅜ | Three month | 8.875 | -0.145 |
| 1 Mth. Bank Bills | 13 3/32 | - | **PARIS** | | |
| 3 Mth Bank Bills | 12 13/32 | - | Intervention Rate | 9¼ | Unch'd |
| **TOKYO** | | | One mth. Interbank | 9½ | -¼ |
| One month Bills | 7 13/16 | -1/16 | Three month | 9 9/16 | -3/16 |
| Three month Bills | 7 23/32 | -⅛ | **MILAN** | | |
| **BRUSSELS** | | | One month | 13⅞ | +⅛ |
| One month | 9 7/16 | -¼ | Three month | 13½ | Unch'd |
| Three month | 9⅜ | -3/16 | **DUBLIN** | | |
| **AMSTERDAM** | | | One month | 11 | -3/16 |
| One month | 9.025 | +0.025 | Three month | 11 | -3/16 |
| Three month | 9.030 | -0.070 | | | |

## FINANCIAL TIMES STOCK INDICES

| | Feb 15 | Feb 14 | Feb 13 | Feb 12 | Feb 11 | Feb 8 | 1990/91 High | 1990/91 Low | Since Compilation High | Since Compilation Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Government Secs. | 85.65 | 85.74 | 85.29 | 85.03 | 85.05 | 85.15 | 85.74 | 74.13 | 127.4 | 49.18 |
| Fixed Interest | 93.95 | 93.92 | 93.26 | 93.16 | 93.61 | 93.60 | 93.95 | 83.80 | 105.4 | 50.53 |
| Ordinary | 1824.5 | 1817.5 | 1791.7 | 1781.1 | 1793.7 | 1760.2 | 1968.3 | 1510.4 | 2008.6 | 49.4 |
| Gold Mines | 134.5 | 136.1 | 136.1 | 135.1 | 137.1 | 138.1 | 378.5 | 129.2 | 734.7 | 43.5 |
| FT-Act All Share | 1106.06 | 1103.60 | 1089.16 | 1085.46 | 1089.53 | 1072.83 | 1226.83 | 962.09 | 1238.57 | 61.92 |
| FT-SE 100 | 2296.9 | 2294.4 | 2267.8 | 2264.5 | 2279.0 | 2245.2 | 2463.7 | 1990.2 | 2463.7 | 986.9 |
| FT-SE Eurotrack 100 | 1024.86 | 1013.02 | 1007.10 | 997.57 | 997.27 | 985.20 | 1024.86 | 900.45 | 1024.86 | 900.45 |

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock | Fri Feb 15 1991 US Dollar Index | % chg ($) since 31/12/90 | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg from 31/12/90 | Gross Div. Yield | Thu Feb 14 1991 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Dollar Index 1990/91 High | 1990/91 Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (75) | 130.81 | +10.8 | 98.45 | 107.83 | 100.38 | 110.28 | +8.3 | 8.22 | 129.92 | 97.24 | 106.52 | 99.03 | 109.79 | 158.31 | 112.74 | 144.37 |
| Austria (19) | 213.73 | +8.7 | 160.85 | 176.18 | 164.01 | 163.74 | +7.0 | 1.67 | 204.75 | 153.24 | 167.87 | 156.06 | 155.69 | 285.63 | 167.00 | 257.52 |
| Belgium (60) | 147.43 | +11.5 | 110.95 | 121.51 | 113.13 | 110.34 | +9.3 | 5.33 | 146.72 | 109.81 | 120.28 | 111.82 | 108.91 | 160.02 | 121.73 | 140.43 |
| Canada (116) | 138.89 | +6.8 | 104.53 | 114.48 | 106.57 | 116.11 | +6.3 | 3.46 | 138.36 | 103.55 | 113.43 | 105.44 | 115.66 | 153.61 | 121.24 | 140.45 |
| Denmark (32) | 263.56 | +13.3 | 198.35 | 217.25 | 202.24 | 203.42 | +11.3 | 1.48 | 258.88 | 193.75 | 212.25 | 197.31 | 198.14 | 277.62 | 217.74 | 252.77 |
| Finland (21) | 113.11 | +9.7 | 85.13 | 93.24 | 86.80 | 85.02 | +8.4 | 3.31 | 108.62 | 81.29 | 89.06 | 82.79 | 81.18 | 152.29 | 90.61 | 148.80 |
| France (113) | 145.46 | +10.4 | 109.47 | 119.89 | 111.61 | 114.71 | +9.1 | 3.60 | 145.10 | 108.59 | 118.95 | 110.58 | 113.69 | 188.85 | 121.85 | 147.93 |
| Germany (88) | 120.53 | +7.7 | 90.71 | 99.38 | 92.49 | 92.49 | +6.3 | 2.46 | 120.87 | 90.46 | 99.11 | 92.12 | 92.12 | 144.63 | 101.38 | 132.07 |
| Hong Kong (48) | 139.22 | +14.3 | 104.78 | 114.76 | 106.84 | 139.23 | +14.2 | 4.82 | 139.21 | 104.19 | 114.13 | 106.11 | 139.23 | 147.49 | 112.24 | 120.36 |
| Ireland (16) | 163.11 | +9.9 | 122.76 | 134.45 | 125.17 | 127.33 | +8.2 | 3.59 | 162.24 | 121.42 | 133.01 | 123.65 | 125.74 | 198.57 | 132.88 | 191.97 |
| Italy (91) | 85.79 | +9.5 | 64.56 | 70.71 | 65.83 | 71.05 | +7.7 | 3.56 | 85.16 | 63.74 | 69.82 | 64.91 | 70.12 | 109.26 | 72.05 | 96.68 |
| Japan (453) | 142.63 | +14.3 | 107.34 | 117.57 | 109.47 | 117.57 | +9.9 | 0.73 | 143.68 | 107.53 | 117.79 | 109.52 | 117.79 | 197.26 | 106.58 | 185.66 |
| Malaysia (34) | 221.69 | +4.5 | 166.84 | 182.73 | 170.11 | 229.29 | +3.9 | 3.28 | 221.77 | 165.98 | 181.81 | 169.02 | 229.29 | 250.89 | 182.96 | 243.75 |
| Mexico (12) | 603.36 | +3.2 | 454.07 | 497.34 | 463.00 | 1954.96 | +3.6 | 0.35 | 599.50 | 448.67 | 491.50 | 456.92 | 1945.08 | 613.96 | 324.53 | 374.12 |
| Netherland (41) | 143.86 | +7.5 | 108.27 | 118.58 | 110.40 | 109.16 | +5.9 | 4.92 | 143.56 | 107.44 | 117.70 | 109.42 | 108.14 | 149.03 | 125.70 | 138.80 |
| New Zealand (15) | 50.59 | +16.5 | 38.07 | 41.70 | 38.82 | 44.33 | +13.1 | 7.67 | 50.25 | 37.60 | 41.20 | 38.30 | 43.93 | 75.36 | 41.18 | 67.29 |
| Norway (30) | 213.01 | +4.3 | 160.31 | 175.58 | 163.46 | 166.75 | +2.3 | 1.65 | 217.24 | 162.59 | 178.11 | 165.58 | 168.66 | 276.79 | 182.24 | 241.98 |
| Singapore (25) | 184.05 | +15.6 | 138.51 | 151.71 | 141.23 | 145.08 | +13.7 | 2.86 | 184.38 | 137.99 | 151.16 | 140.52 | 145.08 | 209.24 | 147.24 | 195.68 |
| South Africa (60) | 190.35 | +4.1 | 143.26 | 156.90 | 146.07 | 136.20 | +0.0 | 3.99 | 193.15 | 144.56 | 158.35 | 147.21 | 135.10 | 251.39 | 151.50 | 209.05 |

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# MONEY MARKET FUNDS

## Money Market Trust Funds

## Money Market Bank Accounts

NOTES—Gross rate is those exempt from composite rate of tax. Net actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate Int Cr frequency interest credited

# LONDON SHARE SERVICE

## BRITISH FUNDS

## BRITISH FUNDS—Contd

## INT. BANK AND O'SEAS

## CORPORATION LOANS

## COMMONWEALTH & AFRICAN LOANS

## LOANS

## FOREIGN BONDS & RAILS

## AMERICANS

## AMERICANS—Contd

## CANADIANS

Continued on next page

# LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 071-925-2128

## BANKS, HP & LEASING

## Hire Purchase, Leasing, etc.

## BEERS, WINES & SPIRITS

## BUILDING, TIMBER, ROADS

## BUILDING, TIMBER, ROADS – Contd

## CHEMICALS, PLASTICS

## DRAPERY AND STORES

## ELECTRICALS

## ELECTRICALS – Contd

## ELECTRICITY

## ENGINEERING

## ENGINEERING – Contd

## FOOD, GROCERIES, ETC

## HOTELS AND CATERERS

## INDUSTRIALS (Miscel.)

## INDUSTRIALS (Miscel.) – Contd

## INSURANCES

## LEISURE

# LONDON SHARE SERVICE

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## MOTORS, AIRCRAFT TRADES

[illegible]

### Commercial Vehicles

[illegible]

### Components

[illegible]

### Garages and Distributors

[illegible]

## NEWSPAPERS, PUBLISHERS

[illegible]

## PAPER, PRINTING, ADVERTISING

[illegible]

## PROPERTY

[illegible]

## PROPERTY—Contd

[illegible]

## SHOES AND LEATHER

[illegible]

## SOUTH AFRICANS

[illegible]

## TEXTILES

[illegible]

## TOBACCOS

[illegible]

## TRANSPORT

[illegible]

## INVESTMENT TRUST

[illegible]

## INVESTMENT TRUST—Contd

[illegible]

## INVESTMENT TRUST—Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

## FINANCE, LAND, ETC

[illegible]

## WATER

[illegible]

## OIL AND GAS

[illegible]

## PLANTATIONS

### Rubbers, Palm Oil

[illegible]

### Teas

[illegible]

## MINES

### Central Rand

[illegible]

### Eastern Rand

[illegible]

### Far West Rand

[illegible]

### O.F.S.

[illegible]

### Diamond and Platinum

[illegible]

### Central African

[illegible]

### Finance

[illegible]

### Australians

[illegible]

## MINES—Contd

[illegible]

### Tins

[illegible]

### Miscellaneous

[illegible]

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 840.5 | Homestake Mining $1 | £8½ | 7.1 | 1.2 | 25.10 | – | 2916 |
| 12.4 | ††Hiberia West......γ | 39 | 25.8 | – | – | – | – |
| 1.09 | ††Ivelk Mins. Ir5p. γ | 45 | 2.3 | – | – | – | 3741 |
| 4.80 | ♥Kenmare.......γ | 10 | 11.1 | – | – | – | 1453 |
| 0.81 | ††Navan Resources...γ | 15 | ........ | – | – | – | 1185 |
| – | ♥New Sabina Res C$1. | 9½ | ........ | – | – | – | – |
| 7.32 | Northgate Expl. C$1 | 58 | 3.6 | – | 10.77 | – | – |
| 4.04 | North West Exlp..... | 12 | ........ | – | – | – | – |
| – | ♥Nor-Quest Res... | 5 | –4.8 | – | – | – | – |
| 320.1 | Oryx Gold Hldgs...... | 194 | ........ | – | – | – | 3686 |
| 0.91 | ††Ovoca Gold IR 2p...γ | 13 | ........ | – | – | – | 1470 |
| 7.85 | Plateau Mining 20p β | 42 | ........ | – | – | – | 3407 |
| 4,875.8 | RTZ 10p............α | 494 | 4.9 | 5.0 | 24.9 | Dec Jul | 3880 |
| – | ♥Thorco Res. Inc.‖.. | 7 | 7.7 | – | – | – | – |
| 4.29 | Vizcaya Hldgs 5p.. β | 8 | ........ | – | – | – | 4193 |
| 12.1 | ✠Young Group 10p... β | 130 | ........ | 8.0 | 10.9 | Apr Oct | 5080 |

### NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

● "Tap Stock"
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
✠ USM: not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Not officially listed.
# Price at time of suspension
♣ Not comparable
† Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
★ Cover does not allow for shares which may also rank for dividend at a future date.
‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. ¢ Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

## REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

| | | |
|---|---|---|
| Craig & Rose £1. β | 675 | ...... |
| Finlay Pkg. 5p.. β | 33 | ...... |
| Holt (Jos) 25p.. β | 1308 | .. |

### IRISH

| | | |
|---|---|---|
| Cap. 8½% Ln. 1991... | £99½ | 0.4 |
| 9pc Cap Ln. 1996.. | £96⅝ | 0.7 |
| Fin. 13% 97/02... | £113 | 0.4 |
| Arnotts.......... | 160 | 4.6 |
| Carrol (P.J.)......... | 154 | ...... |
| Heiton Hldgs.......γ | 40xd | 5.3 |
| IRG.............. | 132 | –2.2 |
| United Drug..... | 135 | 5.5 |

## TRADITIONAL OPTIONS

3-month call rates

### Industrials

| | p |
|---|---|
| Allied-Lyons | 40 |
| Amstrad | 6 |
| Astec (BSR) | 4½ |
| BAT | 46 |
| BOC Grp. | 28 |
| BTR | 25 |
| Barclays | 30 |
| Blue Circle | 19 |
| Boots | 29 |
| Bowaters | 43 |
| Brit. Aerospace | 45 |
| British Steel | 10½ |
| Brit. Telecom | 25 |
| Cadburys | 28 |
| Charter Cons. | 38 |
| Comm Union | 40 |
| Courtaulds | 28 |
| Eurotunnel | 35 |
| FKI | 5 |
| FNFC | 20 |
| Gen Accident | 41 |
| GEC | 15 |
| Glaxo | 68 |
| Grand Met. | 51 |
| Guardian | 17 |
| GKN | 27 |
| Hanson | 16 |
| Hawker Sidd | 35 |
| ICI | 70 |
| Ladbroke | 22 |
| Legal & Gen. | 32 |
| Lex Service | 17 |
| Lloyds Bank | 24 |
| Lucas Inds. | 11 |
| Marks & Spencer | 19 |
| Midland Bk. | 16 |
| Nat West Bk. | 21 |
| P & O Dfd. | 44 |
| Racal Elect. | 16 |
| RHM | 23 |
| Rank Org Ord. | 52 |
| Reed Intnl. | 32 |
| STC | 19 |
| Sears | 7½ |
| SmKl. Beecham A | 41 |
| TI | 35 |
| TSB | 11 |
| Tesco | 19 |
| Thorn EMI | 55 |
| Trust Houses | 23 |
| T&N | 13 |
| Unilever | 52 |
| Vickers | 16 |
| Wellcome | 33 |

### Property

| | |
|---|---|
| Brit Land | 24 |
| Control Secs. | 3½ |
| Land Securities | 45 |
| MEPC | 38 |
| Mountleigh | 9 |

### Oils

| | |
|---|---|
| Aviva Petlm. | 3½ |
| Brit Petroleum | 27 |
| Burmah Castrol | 46 |
| Conroy Petlm. | 15 |
| Gaelic Res. | 1½ |
| Premier | 7 |
| Shell | 37 |
| Tuskar Res. | 2 |
| Ultramar | 29 |

### Mines

| | |
|---|---|
| Lonrho | 19 |
| RTZ | 48 |

*This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,150 a year for each security shown, subject to the Editor's discretion.*

## FT Share Service

The following changes have been made to the FT Share Information Service:

**Additions:** Reckitt & Colman 9.5pc Cnv. Cap. Bonds 2005 (Industrials)

**Deletions:** Arley (Industrials) Priest,Marians 6½pc Cnv. Ln. 2000/03 (Property)

*4:00 pm prices February 15*

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 1991 High | Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 13¾ | 9¼ | AAR Corp | | | 6 | 486 | 12⅞ | 12¼ | 12⅞ | +⅞ |
| 25¾ | 21⅝ | A L Labs A | | | 18 | 316 | 23⅛ | 22¾ | 23 | |
| 52¼ | 40⅞ | AMP Inc | 1.44 | 0.03 | 18 | 2276 | 49⅞ | 48⅛ | 49½ | +1⅛ |
| 60⅜ | 44¼ | AMR | | | 93 | 1273 | 60¼ | 58½ | 59⅞ | +2⅝ |
| 2⅛ | 1¼ | ARX | | | 5 | 31 | 2 | 2 | 2 | -⅛ |
| 48⅞ | 41½ | ASA x | 3.00 | 0.07 | 12 | 793 | 44⅝ | 43 | 43 | -1⅞ |
| 47⅞ | 38⅛ | Abbott Lab | | | 21 | 9803 | 47½ | 46¼ | 47 | +1⅛ |
| 13 | 9⅞ | Abitibi Pr | | | 31 | 9 | 12⅞ | 12¾ | 12⅞ | +⅛ |
| 11⅛ | 10⅜ | ACM Gvt In | | | | 748 | 11 | 10⅞ | 11 | |
| 9⅜ | 8¼ | ACM GvOpp | | | | 183 | 9⅛ | 9 | 9 | |
| 9 | 8⅛ | ACM Gvt Sp | | | | 940 | u9 | 8⅞ | 9 | |
| 10⅝ | 9⅞ | ACM Gvt Se x | | | | 510 | 10⅝ | 10½ | 10½ | -¼ |
| 8⅛ | 7⅝ | ACM Man | | | | 452 | u8⅛ | 8 | 8 | -⅛ |
| 12½ | 11⅞ | ACM Managd | | | | 267 | 12⅜ | 12¼ | 12¼ | -⅛ |
| 7⅛ | 4¾ | Acme Cleve | 0.40 | 0.06 | 19 | 218 | 7 | 6¾ | 6⅞ | +⅛ |
| 6 | 4¾ | Acme Elect | | | 17 | 5 | 6⅛ | 5 | 5⅛ | +¼ |
| 35½ | 22¾ | Acuson | | | 26 | 1169 | 35 | 34½ | 34¾ | |
| 16⅜ | 14¼ | Adams Exp x | 0.48 | 0.03 | 0 | 184 | u16¾ | 16⅛ | 16¾ | +⅝ |
| 20 | 18⅞ | Adobe12Pf | | | | 33 | u20 | 19¾ | 19¾ | -⅛ |
| 9¼ | 7½ | Adobe Res | | | 13 | 158 | 8⅝ | 8¼ | 8⅝ | +⅛ |
| 26½ | 18 | Ad Micro | | | | 34 | 25⅝ | 25¼ | 25⅝ | +⅛ |
| 8¼ | 4⅝ | Ad Micro P | | | 16 | 2378 | 8 | 7⅞ | 8 | +⅛ |
| 4⅜ | 2¼ | Advest Grp | | | 2 | 665 | 3⅝ | 3⅛ | 3⅝ | +⅛ |
| 49½ | 39⅞ | Aetna Li | | | 9 | 2249 | u48⅞ | 47½ | 48¾ | +1¼ |
| 9½ | 6⅝ | Affil A x | 0.24 | 0.02 | 26 | 266 | 9¼ | 9⅛ | 9¼ | |
| 17½ | 12 | Ahmanson x | 0.88 | 0.05 | | 94752 | 17⅜ | 16¾ | 17 | -⅛ |
| 3⅝ | 2⅞ | Aileen Inc | | | 7 | 2 | 3⅛ | 3⅛ | 3⅛ | -⅛ |
| 61½ | 51⅝ | Air Pr Chm | | | 13 | 1435 | 60⅛ | 59¼ | 60⅛ | +¾ |

# NYSE COMPOSITE PRICES

Continued from previous page

| 1991 High | Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 19⅞ | 11⅛ | Quantum Cn | | | | 232144 | 18⅞ | 18¼ | 18½ | -⅛ |
| 14¾ | 10½ | QuestVal D | | | | 404 | 14⅛ | 13¾ | 14 | +⅛ |
| 13⅞ | 12⅝ | QuestVal P x | | | | 253 | 13¼ | 13⅛ | 13¼ | +⅛ |
| 37⅞ | 33¼ | Questar x | 1.96 | 0.05 | 12 | 110 | 36½ | 36¼ | 36¼ | -⅛ |
| 17½ | 10 | Quick R'ly | 0.26 | 0.02 | 14 | 167 | 16⅞ | 16⅛ | 16⅞ | +½ |

- R - R -

| 1991 High | Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 11½ | 10⅝ | RAC Incm x | 0.42 | 0.04 | | 80 | u11½ | 11¼ | 11¼ | |
| 8⅝ | 4⅞ | RAC Mortg | 0.60 | 0.08 | 7 | 168 | u8⅝ | 6⅞ | 8½ | |
| 7⅝ | 4½ | RJRNab W99 | | | | 1036 | 7¼ | 7⅛ | 7¼ | |
| 14⅞ | 11⅞ | RLI Corp | 0.44 | 0.03 | 7 | 21 | 14⅝ | 14¼ | 14⅝ | +⅛ |
| 6⅞ | 4 | RMI Titanm | | | 3 | 119 | 6⅞ | 6⅛ | 6⅛ | -⅛ |

| 1991 High-Low | | Stock | Div. | Yld. | P/E | Sls 100s | High | Low |
|---|---|---|---|---|---|---|---|---|
| 36¼ | 26⅛ | StanleyWk | 1.20 | 0.03 | 14 | 780 | u36⅛ | 35⅝ |
| 24⅞ | 20¼ | Starrett | 0.68 | 0.03 | 9 | 12 | 22⅞ | 22⅛ |
| 9⅞ | 9⅛ | State Mutl | 0.96 | 0.10 | | 88 | u9⅞ | 9⅝ |
| 3⅝ | 2⅝ | Steego Crp | | | 7 | z100 | 3¼ | 3⅛ |
| 46 | 43 | StrgSf7.20 | | | | 2 | u46 | 46 |
| 8¾ | 7⅛ | SterlgBcrp | | | 8 | 76 | u8⅞ | 8⅝ |
| 6⅞ | 4⅝ | SterlgChem | | | 62 | 401 | u7⅛ | 6¼ |
| 11⅛ | 7⅞ | SterlgSwre | | | 11 | 688 | u11⅛ | 10⅞ |
| 4⅝ | 3⅞ | Stifel Fin | | | 83 | 77 | u5 | 4⅝ |
| 31⅞ | 26⅝ | Stone&Web | 0.60 | 0.02 | 83 | 111 | u32 | 31½ |
| 18⅞ | 9 | Stone Cont x | 0.72 | 0.04 | 10 | 4597 | 17⅛ | 16¼ |
| 5⅝ | 3½ | Stoneridge | | | 7 | 50 | 5 | 5 |
| 8 | 6⅞ | Storage Eq | | | 6 | 55 | u8½ | 7⅞ |
| 31 | 17⅞ | Storage Te | | | 12 | 5565 | 30 | 27½ |
| 30¼ | 20½ | Stratus | | | 15 | 766 | 28⅛ | 27½ |
| 38⅞ | 26¼ | StrideRite | 0.48 | 0.01 | 18 | 1430 | 38⅝ | 37⅞ |
| 25¼ | 20⅞ | Sturm Rger | 1.20 | 0.05 | 9 | 15 | 24⅞ | 24⅞ |
| 9⅝ | 5⅞ | Suave Shoe | 0.40 | 0.06 | 11 | 34 | 6⅞ | 6¼ |
| 9¼ | 7¼ | Sun Dis A | 1.10 | 0.12 | 4 | 39 | 9½ | 9 |
| 3⅝ | 2½ | Sun Dis B | | | | 31 | 3⅝ | 3⅛ |
| 11⅞ | 7⅞ | Sun Electr | | | 21 | 232 | 9⅞ | 9⅞ |
| 10⅛ | 8⅞ | Sun Energy x | 1.62 | 0.17 | 12 | 260 | 9½ | 9¼ |
| 30½ | 23⅞ | Sundstrand | | | 10 | 780 | 31½ | 30½ |
| 6¼ | 5½ | SunshineP1 | | | | 549 | 5¾ | d5¼ |

# NASDAQ NATIONAL MARKET

*4:00 pm prices February 15*

# AMEX COMPOSITE PRICES

*4:00 pm prices February 15*

Price data supplied by Telekurs.

*MONDAY INTERVIEW*

# Sensitive to public perceptions

## Sir John Quinton, chairman of Barclays Bank, talks to **David Lascelles**

*Sir John Quinton has been a clearing banker for 38 years, and he has never seen things as bad as they are now: the bankruptcies, the bad debts, the housebuyers who cannot pay their mortgages, the overall sense of gloom. And he sees little prospect for early relief. His economists are advising him not to expect any recovery before the end of this year, possibly not until next.*

For the chairman of the UK's largest bank, Sir John has been unusually vigorous in jangling the alarm bells about the state of the British economy. He hit the headlines last month by forecasting that the clearing banks would lose £2bn in bad debts. And last week he was telling a conference of international bankers that conditions are "the worst that I can recall".

His outspokenness has, not surprisingly, raised questions about his motives: clearing bankers make soothing rather than frightening noises, so why is he taking such a high profile? He is certainly not political. Sir John does not deliver harangues about the conduct of monetary policy or make public demands for cuts in interest rates, much as he might wish for them in private.

His interests are more self-centred than that. He needs constantly to remind his customers, his shareholders and his staff that Barclays is under heavy pressure, as his 1990 results will show next week. Only last Friday, he was buffeted by the news that Standard & Poors had cut his prized triple A rating because of the damage caused by the recession. "It's difficult to argue with that," he said.

Results day will bring two much-awaited pieces of news. Barclays staff will be told how many jobs the bank needs to cut to bring its costs down to acceptable levels. Sir John warns it will be several thousand. Shareholders will also hear about their dividend. Although Sir John has said in the past that he wants to maintain an increase of 5 per cent a year in real terms, he stresses that this is "over a period" and may not happen every year. Banks which pay out dividends they cannot afford could start frightening away their depositors, he says.

But there is more to his speechifying than a wish to prepare people for the worst. His comments also have a defensive tone; they suggest a vulnerability to criticism for the way banks are handling the recession – for the way they might even have contributed to it through profligate lending in the late 1980s.

Barclays itself could have a case to answer here. In the period 1985 to 1989, when Sir John became chairman, Barclays nearly doubled its balance sheet from £65bn to £128bn, an unprecedented rate of growth which propelled it to the top of the clearing bank league table. It was a phase when Sir John – an outsider to the traditional families which have run Barclays for generations – breathed new life into what had become a sleepy bank.

But Sir John is quick to reject suggestions of irresponsible behaviour. "We are responsive to demand. We don't force money on anyone. Obviously there was an over-expansion of lending, but how far we can be blamed is arguable."

Barclays' dilemma, like that of all the banks, was that self-restraint during those gung-ho years would have cost it valuable market share, and it was determined to catch up with its arch-rival, National Westminster. In these more competitive times, the nods and winks from the Bank of England, which kept things in order in the past, no longer have the same effect.

"It's such a different market now that controlling the credit boom is more difficult. It was a mistake to take off restrictions on equity withdrawal [allowing homeowners to borrow against the value of their houses]. That released £20bn into the economy. The controls had never been 100 per cent effective. But even a 60 to 70 per cent success rate would have done."

Should those controls be reintroduced? "They could be, and if they were we would pay attention and obey. But is there a political will to do it? It would not be popular with our customers."

But now that Barclays' expanded loan book has shouldered it with expanding bad debts, how are its bank managers dealing with them – the hard-pressed businesses, and the private borrowers who cannot pay their bills?

"We always try to be as helpful as possible. The last thing we want to see is a customer go bankrupt, for lots of reasons, not least because that reflects badly on our professional judgment in making a loan in the first place. Unfortunately, a lot of the businesses formed in the last five years have found that the collapse in demand means they cannot survive. There comes a point where it is in the interests of the customer for us to stop things going any further."

How far is Barclays prepared to go to help companies through? "That is dictated by how long it is until we see a revival. With recovery forecast for early 1992, if a company can soldier on, we will endeavour to help it."

Trevor Humphries

'We don't force money on anyone'

One way Barclays can help is by agreeing to transform a loan into a direct investment in a company – as Natwest did with a home furnishings business last week. Sir John agrees that this is a possible route, though he is not enthusiastic because he prefers banks to have a more arm's length relationship.

"We do it occasionally but we find it's not popular with our customers. If we think it can help, we'll do it, but on the basis that we sell out eventually. We are not in the business of getting into German-style ownership of industry."

The difficulties have partly to do with choice: how do you decide which cases merit this rather exceptional treatment? But there are also conceptual difficulties. If a bank takes a direct stake in a customer, it might imply to that company's customers that it had total bank support, which would not necessarily be the case: a matter of the bank's assuming responsibility without power. Sir John says Barclays has neither the time nor the skills to get involved in managing troubled companies, which might be engaged in anything from tourism to metal-bashing.

Clearly the success of the German model, where banks hold large stakes in industrial companies and put directors on their boards, suggests that there must be benefits. But Sir John is not convinced it would work in Britain. "There are superficial attractions, but when it comes down to it it is not so practical. I am not keen to see companies being handed over to the banks."

In that case, what should troubled companies be doing to ensure the greatest measure of support from their banks?

"They should get to know their branch manager, and he should get to know them as much as possible. They must be honest and open, and give early warnings, especially of problems. The things bankers dislike most are uncertainty, lack of information and sudden surprises."

During recessions, banks usually become the focus of political pressure to help the country out. But again, it is a sign of changing times that banks are being left more on their own now to form their own judgments. Sir John says: "The Bank of England only gets involved in cases where there are lots of banks and someone has to help sort them out. Then it's OK to ask the Bank for assistance. But it's not done so much now as in the 1970s. I hear less about it than I did before."

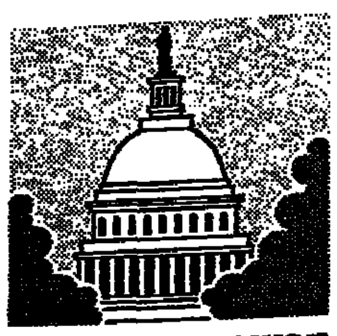
Recessions also tend to unmask the country's true feelings about its banks, and Sir John is sensitive to the way his own institution is perceived in the country at large, while as chairman of the Committee of London and Scottish Bankers, the clearers' trade group, he also has wider concerns about the image of banking.

"It's strange. On the one hand banks are viewed as stable, respectable national institutions, and a credit to Britain. But on the other we get criticised because we don't help businesses and don't give the service that's expected. No one, at the end of the day, loves a money lender. Our research shows that we're either a tremendous asset or a slight pain."

### PERSONAL FILE

- **1929** Born in Norwich. Educated Norwich School and St Johns Cambridge.
- **1953** Joined Barclays.
- **1960-61** Seconded to Société Générale in Paris.
- **1964** Manager Kings Cross branch.
- **1965-67** Seconded to ministry of health.
- **1969** Regional director, Nottinghamshire district.
- **1971** Regional general manager, north-east.
- **1975** General manager and director.
- **1982** Senior general manager.
- **1985** Vice-chairman.
- **1987** Chairman.

# Sunny side up, at the White House



**MICHAEL PROWSE on America**

The tutor Pangloss was the oracle of the house, and little Candide followed his lessons with all the candour of his age and character. Pangloss taught metaphysico-theologo-cosmolonigology. He proved admirably that there is no effect without a cause and that in this best of all possible worlds, My Lord the Baron's castle was the best of castles and his wife the best of all possible Baronesses.

Dr Pangloss, from Voltaire's novel Candide, is the most famous optimist in literary history. Dreadful misfortunes befell him but he remained doughtily convinced that all was for the best in this most perfect of all worlds. Some of his incurable optimism seems to have washed off on another academic – Dr Michael Boskin, the Stanford economics professor who chairs President George Bush's council of economic advisers.

Dr Boskin, a highly respected economist, is the principal author of this year's Economic Report of the President, a document of some importance in US economic life. The 400-page report provides what is generally regarded as the most authoritative annual survey of US economic trends and policies. The White House expects to distribute about 45,000 copies, many to university campuses.

The report provides a fine opportunity for a hard, objective look at the US's economic and social problems. Instead, Dr Boskin and colleagues serve up what amounts to economic propaganda. The report is suffused with optimism; indeed it might have been ghost-written by Candide's tutor. Reading it one is left with the impression that Mr Bush is the best of all possible presidents, the recent budget the finest of all fiscal statements and the US economy the most dynamic of all imaginable economies.

The least objectionable sections are those on the short-term outlook. Dr Boskin expects a mild recession to bottom out by the summer. This is a questionable forecast but the White House can justifiably claim that many private economists are equally confident. There is a widespread belief that this is a standard recession which can be readily cured by an aggressive easing of monetary policy.

Far more worrying is the sweeping under the carpet of longer-term structural problems. The recession is portrayed as a blip – a temporary interruption in the onward march of prosperity. The report is a shameless panegyric for the dynamism, flexibility and diversity of the American economic system. If you want proof of its dynamism, says Dr Boskin in one extraordinary passage, simply look around your home at the video-cassette recorders and home computers. He seems not to recognise Japan's pre-eminence in the consumer electronics market.

The impression created is that the United States' few remaining problems – such as in health care or education – can be readily solved by an additional dose of effective competition. In other words, the only thing wrong with the US economy is that it is not sufficiently American: after two centuries Adam Smith's free-market principles are still not being applied ruthlessly enough.

Yet neither the analysis nor the policy recommendations stands up. The US's recent economic record, at best, is indifferent. Dr Boskin may point to average annual growth of 2.8 per cent during the last economic cycle – between 1981 and 1990. But this was bought partly by incurring huge debts – in effect mortgaging future generations.

More important, it also reflects population growth not far short of that enjoyed in many developing countries. The adult civilian population grew at an annual rate of 1.1 per cent; participation rates also rose as more women joined the labour force. If many more hands are put to work, output can be expected to grow quite rapidly. What matters for future living standards is the growth in the work force's productivity. This was unimpressive: output per hour rose at an annual rate of only 1 per cent, only slightly better than in the stagflationary 1970s.

Dr Boskin says the US economy is dynamic and flexible. Could he therefore explain why real average hourly earnings have failed to rise, not just in the 1980s but in the past quarter century?

Tables in his own report show that in constant 1982 dollars, average hourly earnings of non-supervisory workers in non-farm businesses were $7.62 in 1966, 8 cents more than the estimated figure for 1990. These figures are an indictment of US industrial performance. For millions of workers, they constitute a shattering of the American dream: you work hard, but you don't get ahead.

Instead of pretending that everything is going swimmingly well, Dr Boskin should have explained why many Americans have experienced static or declining living standards in recent years. He might also have addressed the plight of those at the bottom of the social heap. Why are 31.5m Americans, 13 per cent of the population, living below the official poverty line? Why is this percentage significantly higher than in the early 1970s? Why are 31 per cent of black people still in poverty? Why is little being done to alleviate a jobless rate among black teenagers of 36 per cent?

As an economic tutor to the nation, these are the kind of hard questions that Dr Boskin ought to address. It is no use simply intoning that the US economic model is the world's finest. Many other countries, including Japan and Germany, are doing much better – and it is not by relying on a purer form of free-market economics.

# Not enough for government to pass the buck on Fimbra

**JUSTINIAN**

The threatened insolvency of Fimbra (Financial Intermediaries, Managers and Brokers' Regulatory Association) is hardly a positive advertisement for those seeking to foster the self-regulatory habit in financial services in preference to governmental regulation by a statutory agency. Indeed, many will point to Fimbra's situation and ask why the Financial Services Act 1986 was ever considered the right option in establishing the framework for a new financial services regime to protect the investor.

Before 1986 the system of regulation (if it could be so dignified) had developed in a higgledy-piggledy fashion. It was graphically portrayed by Professor L C B (Jim) Gower, who was appointed as a one-man commission in 1981 to conduct a review of the protection required for investors.

Prof Gower wrote: "Complication, uncertainty, irrationality, failure to treat like alike, infexibility, excessive control in some areas, and too little (or none) in others, the creation of an elite and a fringe, lax enforcement, delays, over-concentration on honesty rather than competence, undue diversity of regulations and regulators, and failure overall to achieve a proper balance between government regulation and self-regulation."

This chronicle of defects could only have prompted abandonment of what was then in play. But what to put in its place?

The framework for any new system rejected the single, powerful governmental agency along the lines of the US Securities Exchange Commission. Instead, there was put into effect a system of "practitioner-based, statute-backed regulations". The 1986 act prohibits the carrying on, or purported carrying on of investment business without authorisation or exception. Under the act, the power of authorisation is vested in the secretary of state, but he is empowered to transfer this and other functions to a practitioner-based agency designated by him which matches a number of statutory criteria.

A three-tier pyramid was established. At its apex stood the minister. A Securities and Investments Board (SIB) formed the next tier. This is a single agency operating through a number of self-regulatory organisations (SROs) of which Fimbra is one. Neither SIB nor the SROs are the creatures of statute. The SIB has been set up by the financial industry as a registered company, while the SROs have been formed or reorganised, with a view to SIB recognition.

While the emphasis is clearly based on self-regulation, that is reinforced by the criminal and civil law in relation to investor-protection. Offence were redefined in 1986. More significant, provision was made for civil remedies for loss due to breach of the provisions of the act or of the rules of business conduct laid down by SIB or the SROs. Overall, the order of the day was firmly self-regulatory.

Fimbra, as with the other SROs, is the responsibility of SIB. The latter body ensures that requirements of monitoring and enforcement of compliance by SRO members, of investigating complaints and the promotion and maintenance of standards are met. The SIB has power to obtain information and conduct investigations. It possesses a penumbra of sanctions. It can go to the courts to seek compliance by way of an order directing any organisation to comply with any requirements with which it is in breach. It can alter an organisation's rules and restrict the kinds of investment business which SRO members are authorised to carry on. And it can even revoke a recognition. But the SIB is not bound to bail an SRO out. Hence, the worry of investors that the threatened insolvency of Fimbra.

The resort to self-regulation, instead of direct governmental regulation, has always engendered a fear of government disinterestedness in the regulatory system at two levels because, as the sponsor of self-regulation, government is seen to abdicate its role as guardian of the public interest. That fear can be, and is dispelled, by the elaborate structure of supervision and control. The other fear – a reality in the Fimbra affair – is that resort to self-regulation may mean that government is able to distance itself from the remedies for breaches of conduct, where preventive action as failed.

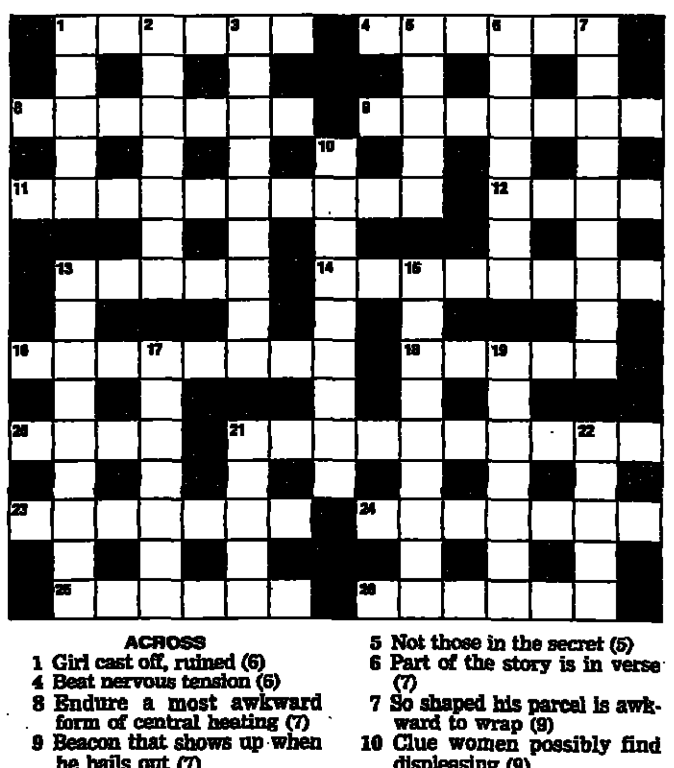
Official compensation funds are a common feature of all regulatory schemes wherever the public has its money invested. But too little attention is paid to the buttressing of such schemes. What if the funds are inadequately supplied to meet unexpected demands upon them? Here there is a need for governmental involvement – either direct, or indirectly, through the single agency. It is not enough for government simply to pass the buck to its agency, the SIB. Otherwise, self-regulation will not survive as the preferred option to supervise and control financial services.

**Louis Blom-Cooper QC**

JOTTER PAD

## CROSSWORD

No.7,472 Set by DANTE



**ACROSS**

1 Girl cast off, ruined (6)
4 Beat nervous tension (6)
8 Endure a most awkward form of central heating (7)
9 Beacon that shows up when he bails out (7)
11 New place never achieves popularity (10)
12 Feathered, they skim the water (4)
13 Go to pieces, because of over-inflation? (5)
14 Get into a rut (8)
16 Rich language changed to richer (8)
18 A spirited harp-player? (5)
20 One who took the lead in old Russia (4)
21 Trees will not usually grow above this height (6-4)
23 He may go to an ancient city and sit in ruins (7)
24 Read something aloud and acted it out (7)
25 A wave that flattens out (6)
26 King of fitted wardrobe (6)

**DOWN**

1 Put off Ted's rise with hesitation (5)
2 Russian vessel (7)
3 Cares a lot about powered flight (9)
5 Not those in the secret (5)
6 Part of the story is in verse (7)
7 So shaped his parcel is awkward to wrap (9)
10 Clue women possibly find displeasing (9)
13 Conduct performance (9)
15 A blow for commerce (5,4)
17 A growing attachment (7)
19 A festive cuppa for the nymph (7)
21 A bit of discrimination (5)
22 Made a record and was famous (5)

**Solution to Puzzle No.7,471**